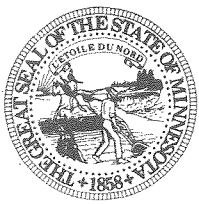


**DEPARTMENT OF PUBLIC SAFETY
MANAGEMENT LETTER
FISCAL YEAR 1988**

MARCH 1989



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 1988 financial statements and 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 as cited in the Catalog of Federal Domestic Assistance (CFDA) included in the single audit scope as follows:

<u>CFDA #</u>	<u>PROGRAM NAME</u>
83.516	Disaster Relief

- your centralized function responsibilities for encumbrances, fixed assets, payroll, and cash management; 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. The work conducted in your department is a part of our annual statewide financial and federal compliance audit (single audit). 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 1988.

Your internal audit unit was responsible for specific single audit compliance requirements. We have evaluated and accepted their work as required by the AICPA Professional Standards.

Findings #1, 3, and 5 from the fiscal year 1987 audit have been resolved. Finding #2 has been substantially resolved and is not included in this report. However, we will review the final resolution next year. Finding #4 has not been resolved and is presented again in this letter as finding #1. We will review your progress on resolving all findings during our audit next year.

1. PRIOR FINDING NOT RESOLVED. Verification of the state's share of patrol fines and collection of county overpayments/underpayments is weak.

Highway patrol fines are settled and collected by the various county courts. Counties retain three-eighths of each fine and the remaining five-eighths is sent to the Department of Public Safety. The only exception occurs when a city attorney prosecutes a not guilty plea for a violation that occurred within a municipality. The county, municipality, and state would each receive one-third after clerks fees in that case. County checks, along with summary sheets, are sent monthly to the department.

The information provided by the counties on the monthly summary sheets is insufficient to verify the calculation of the state's share. The summary sheets contain a breakdown of the type and amount of fines received, but provide no further support such as copies of tickets issued and paid. Therefore, the department can only verify the mechanical accuracy of the summary sheet, and cannot determine if all receipts were properly submitted.

Department officials have argued that state law does not clearly affix responsibility for verifying the completeness of patrol fine collections. Minn. Stat. Section 299D.03, Subd. 5 states in part:

The other five-eighths of these receipts shall be transmitted by that officer [county treasurer] to the state treasurer (emphasis added) and shall be credited to the trunk highway fund.

Arguably, the State Treasurer could be construed as having responsibility for the accuracy of the receipts. However, the department presently bears considerable administrative responsibility for the program, and is in the best position to assess the accuracy of the receipts. Furthermore, we do not believe that the reference to the State Treasurer in any way precludes the department from assuming this responsibility. Finally, the department has historically accepted this responsibility. The State Treasurer does not have the staff resources nor the information to scrutinize the accuracy of the receipts.

We do not believe that existing statutes should be viewed as an impediment to properly managing patrol fine collections. Department officials should consult with the State Treasurer, if they continue to have doubts about assuming responsibility for the receipts. If the department cannot reach an agreement with the State Treasurer, an Attorney General's opinion should be sought.

Prior to 1980, the department did obtain the necessary information to verify the calculation of the state's share. This practice was discontinued, however, when it became too burdensome to make manual verifications. The department should review alternative methods of verification, both

manual and computerized, and their cost/benefit. One method would be to require counties to provide ticket numbers comprising the fine amounts on the summary reports. The department could then verify the accuracy of monthly patrol receipts by performing an independent calculation of these receipts for a sample of counties each month. This computation would require the department to obtain settlement amounts from the drivers license records section for each ticket number listed on the summary report, total them, and compare them to the amounts listed on the summary reports submitted by the counties. Without a verification of the receipts, as listed on the summary report, the department cannot be certain the state is receiving its share of patrol fine receipts collected.

Department clerks verify the county calculations and contact counties for discrepancies over \$10. These overpayments or underpayments were recorded on a summary sheet in fiscal year 1987, but any subsequent contacts were not recorded. This resulted in a poor audit trail for monitoring repayments. For instance, one summary sheet tested in fiscal year 1987 indicated a county had overpaid \$244. Department personnel could not determine, however, if the overpayment was an error or if it was the repayment of a previous underpayment. Another county consistently rounds incorrectly, resulting in a net underpayment amount of \$576 for fiscal year 1987. Fiscal year 1988 testing revealed incorrect calculations which were not recorded or reported by department clerks, in addition to not recording subsequent contacts. A detailed log or ledger would provide a written record of when the error occurred, how often the county was contacted, and when the repayment occurred. Without this record, errors may occur and remain undetected.

RECOMMENDATIONS

- The department should resolve any uncertainties regarding responsibilities for verifying the accuracy of patrol fine collections.
- The department should review alternative methods of verifying the state's share of patrol fines.

2. Cashiers' duties are not adequately separated.

The department operates a public counter which processes motor vehicle registrations. Receipts from the counter are deposited by the cashier's office into the state treasury. The cashier's office also authorizes and processes any refunds of motor vehicle fees, and collects on dishonored checks. Effective internal controls provide that individuals with access to receipts should not have access to related accounting records. Without segregating duties over these areas, an individual could conceal errors or irregularities without detection by other employees. Inadequate separation of duties was noted for employees of the front counter and the cashier's office.

Counter employees process registrations by collecting fees, inputting records onto the motor vehicle system, and issuing license plates and stickers. Each operator's entries are automatically batched through the computer system. Operators balance the batches against remittances, submitting receipts and documentation to the cashier's office for deposit. The cashier's office spotchecks batch information for reasonableness. However, this review does not provide an independent verification that all fees were accurately collected and recorded. An independent review is performed by the combined processing group (CPG) section for registrations processed by deputy registrars, but they do not review the counter registrations. Without the proper review, fees could be charged incorrectly or misappropriated.

After spotchecking batch information for reasonableness, an employee of the cashier's office prepares the deposit. If errors have been noted, the same employee may access the motor vehicle records and make adjustments. These adjustments are not traceable as no record is made of the adjustment. Access to the system by the cashier's office is unnecessary, and should be removed to strengthen the segregation of duties. The responsibility for correcting errors and balancing batches should remain with the counter personnel. If the cashier's office notices any errors, both the cashier and the counter personnel should agree on the adjustment that is needed.

Additionally, responsibilities for processing refunds are not adequately separated. Four individuals receive and process refund claims, at times reviewing system documentation, or microfilmed records to verify claim information. Copies of documentation reviewed are not always attached to the claims. Additionally, two of the same individuals reconcile the list of refunds processed to actual warrants issued. These procedures do not provide for any independent verification, nor is there adequate assurance that all refunds are properly issued or recorded.

In each case there is a need to segregate incompatible functions. Proper separation provides some assurance that errors or irregularities will be detected in the normal course of business.

RECOMMENDATIONS

- Motor vehicle registrations should be reviewed and compared to system documentation by someone independent of the front counter duties.
- Deposits should not be prepared by an individual able to access motor vehicle records.
- Supporting documentation should be attached to all material refunds, and independently verified on state-wide accounting records.

3. A subrecipient audit resolution process has not been fully established.

The department has not been adequately monitoring the single audit coverage of its subrecipients. The Single Audit Act of 1984 requires, in Section 7502 (e) that:

Each State and local government subject to the audit requirements of this chapter, which receives Federal financial assistance and provides \$25,000 or more of such assistance in any fiscal year to a subrecipient, shall--

(A) if the subrecipient conducts an audit in accordance with the requirements of this chapter, review such audit and ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipient by the State or local government; or

(B) if the subrecipient does not conduct an audit in accordance with the requirements of this chapter--

(i) determine whether the expenditures of Federal financial assistance provided to the subrecipient by the State or local government are in accordance with laws and regulations; and

(ii) ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipients by the State or local government.

The Department of Finance coordinates the monitoring activities of state agencies to ensure that state subrecipients receive sufficient single audit coverage. Finance has issued directives to state agencies concerning their responsibilities in monitoring subrecipients. In July 1988, Finance formalized the directives into the Accounting Operations Manual policy and procedures.

The Department of Public Safety has failed to establish a satisfactory subrecipient audit resolution process in two respects:

- The department has not ensured that an acceptable audit was performed on all subrecipients. The State Auditor's report is reviewed by the department, however three subrecipients were not listed in the report. These subrecipients were not contacted.
- The department has not reviewed individual subrecipient reports to ensure prompt and corrective action is taken on material findings.

RECOMMENDATION

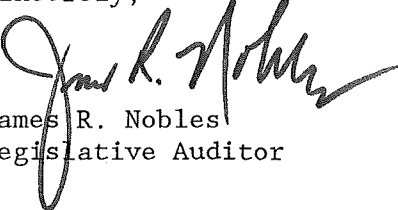
- Public Safety should establish an appropriate audit resolution process for its subrecipients. Specifically, the process should ensure that:

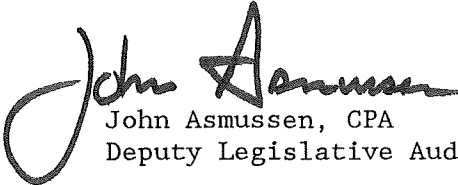
Mr. Paul Tschida, Commissioner
Department of Public Safety
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- A) all required subrecipients have acceptable audits performed; and
- B) individual subrecipient reports are reviewed to ensure prompt and corrective action is taken on material findings.

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

Sincerely,


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

March 1, 1989

OFFICE OF THE COMMISSIONER

211 Transportation Building

Telephone: _____



STATE OF MINNESOTA

DEPARTMENT OF PUBLIC SAFETY

SAINT PAUL 55155

March 1, 1989

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

Dear Mr. Nobles;

At the January 25, 1989 exit conference, Margaret Jenniges requested a response to the recommendations made in the draft copy of the financial and compliance audit of this agency as the part of the statewide audit of the State of Minnesota's fiscal year 1988 financial statements.

Comments on the recommendations are in the order presented in your draft report and include progress toward implementation, as well as the department's position on the practicality or feasibility of complying with certain recommendations.

Marlene Swanson, Director of Driver Vehicle Services Division, will be responsible for the implementation of the recommendations for finding number two. Frank Ahrens, Director of the Office of Fiscal and Administrative Services, will be responsible for implementation of recommendations for findings one and three.

FINDING ONE: PRIOR FINDING NOT RESOLVED. Verification of the state's share of patrol fines and collections of county overpayments/underpayments is weak.

Highway patrol fines are settled and collected by the various county courts. Counties retain three-eighths of each fine and the remaining five-eighths is sent to the Department of Public Safety. The only exception occurs when a city attorney prosecutes a not guilty plea for a violation that occurred within a municipality. The county, municipality, and state would each receive one-third after clerks fees in that case. County checks, along with summary sheets, are sent monthly to the department.

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Prior to 1980, the department did obtain the necessary information to verify the calculation of the state's share. This practice was discontinued, however, when it became too burdensome to make manual verifications. The department should review alternative methods of verification, both manual and computerized, and their cost/benefit. One method would be to require counties to provide ticket numbers comprising the fine amounts on the summary reports. The department could then verify the accuracy of monthly patrol receipts by performing an independent calculation of these receipts for a sample of counties each month. This computation would require the department to obtain settlement amounts from the drivers license records section for each ticket number listed on the summary report, total them, and compare them to the amounts listed on the summary reports submitted by the counties. Without a verification of the receipts, as listed on the summary report, the department cannot be certain the state is receiving its share of patrol fine receipts collected.

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1987, but any subsequent contacts were not recorded. This resulted in poor audit trail for monitoring repayments. For instance, one summary sheet tested in fiscal year 1987 indicated a county had overpaid \$244. Department personnel could not determine, however, if the overpayment was an error or if it was the repayment of a previous underpayment. Another county consistently rounds incorrectly, resulting in a net underpayment amount of \$576 for fiscal year 1987. Fiscal year 1988 testing revealed incorrect calculations which were not recorded or reported by department clerks, in addition to not recording subsequent contacts. A detailed log of ledger would provide a written record of when the error occurred, how often the county was contacted, and when the repayment occurred. Without this record, errors may occur and remain undetected.

RECOMMENDATION:

The department should resolve any uncertainties regarding responsibilities for verifying the accuracy of patrol fine collections.

RESPONSE:

The department is in the process of seeking an Attorney General's opinion as to Public Safety's responsibility for the verification of the accuracy of State Patrol fines collections. In the mean time, we will also pursue alternative methods of monitoring fine collections with the State Auditors office.

RECOMMENDATION:

The department should review alternative methods of verifying the state's share of patrol fines.

RESPONSE:

The method of patrol fine verification as suggested by your management letter required the counties to submit summary reports with the addition of the ticket number and fine amount and then for us to compare that listing to the driver's record. We have been told that there may be significant problems with this method of verification. The current driver's record does not include the ticket number or the fine amount. Regardless of whether the counties provide ticket detail summary reports, driver records could not be used in its present format to verify the collection of patrol fines.

The problem of verification lies both with the patrol fine tickets and the Driver License Computerized Record System.

The problem of patrol fines tickets is not all tickets issued

appear on the Minnesota Driver's Record. According to the Patrol Activity Report for calendar year 1988 and Loren Kalal, State Patrol Research Analyst, about one-third of the patrol fines tickets are for non-moving violations. These violations range from vehicle equipment violations to overweight violations. These are fines that would be processed through the county court system and never appear on a Minnesota Driver's Record.

Of the two-third patrol tickets for moving violations, there are exceptions to these tickets appearing on a Minnesota Driver's Record. A moving violation patrol ticket issued to an out-of-state driver is an exception. While the county would transmit the fine amount to our department, the county court would be submitting the violation data to the home state of the out-of state driver.

Another exception are those speed violations that exceed the 55 MPH speed limit by only 10 MPH. Minnesota Statutes 171.12 Subd. 6 provides that violations 10 MPH over or less in a 55 MPH zone do not appear on the driver's record. While the county court would transmit the fine amount to our department, no driver violation data would be transferred to the Minnesota Driver's Record. This exception also applies to those violations that are more than 10 MPH over in a 55 MPH zone, if those tickets are plea bargained to 10 MPH over violation. This has occurred and has been reported in local papers.

The Minnesota Driver's Computerized Record System is another problem area. According to June Johnson, Supervisor of Licensing and Records, currently, 27 counties download their violations data onto our Drivers' Record System with the remaining counties providing printed reports. The Driver's Computerized Record System only captures: name, date-of birth or driver's license number, and the violation. There is no information captured regarding what law enforcement agency issued the violation, the ticket number or the amount of the fine. Also, the Minnesota Driver's Computerized Record System has no available fields for input of the law enforcement agency, ticket number and fine amount. To increase the fields could be very costly, however, we shall research the cost of increasing the number of fields. If funds were available to increase the fields, we would still need the cooperation of all the county courts. Implementing this audit trail could be costly both to the state and the counties.

In reviewing this method of patrol fine verification, it is apparent that less than two-thirds of the tickets would end up on the driver's record and those violations that are reported on the driver's record can not be traced to the patrol ticket. We will need to spend a considerable amount of time researching this issue in order to find the most efficient, effective and economical method to use in verify patrol fines. We will need the assistance of your Office (Office of the Legislative Auditor)

in resolving the issue of patrol fine verification. As stated previously, we will discuss this issue with the State Auditors Office in an effort to assess their commitment to the problem of patrol fine verification. We would hope that through the audits of the counties by the State Auditor, the assistance of the Office of the Legislative Auditor, and a renewed effort on part of this department, a verification of patrol fine collections can be made.

Our response to the finding of department clerks not recording and reporting incorrect county fine calculation is the following: A log was developed, as recommended in the previous audit, to record errors and report contacts; however, the account clerk responsible for patrol fines did not record or report county miscalculations as required. Subsequently, no contacts were made for part of Fiscal Year 1988. The account clerk was disciplined for neglecting her responsibilities. Since that time, the procedures for monitoring of patrol fine receipts have been revised at the request of the auditors. Also, the supervisor will review the log on a monthly basis to insure that the procedures are being followed.

FINDING TWO: Cashiers' duties are not adequately separated.

The department operates a public counter which processes motor vehicle registrations. Receipts from the counter are deposited by the cashier's office into the state treasury. The cashier's office also authorizes and processes any refunds of motor vehicle fees, and collects on dishonored checks. Effective internal controls provide that individuals with access to receipts should not have access to related accounting records. Without segregating duties over these areas, an individual could conceal errors or irregularities without detection by other employees. Inadequate separation of duties was noted for employees of the front counter and the cashier's office.

Counter employees process registrations by collecting, --inputting records onto the motor vehicle system, and issuing license plates and stickers. Each operator's entries are automatically batched through the computer system. Operators balance the batches against remittances, submitting receipts and documentation to the cashier's office for deposit. The cashier's office spot checks batch information for reasonableness. However, this review does not provide an independent verification that all fees were accurately collected and recorded. An independent review is performed by the combined processing group (CPG) section for registrations processed by deputy registrars, but they do not review the counter registrations. Without the proper review, fees could be charged incorrectly or misappropriated.

After spot checking batch information for reasonableness, an employee of the cashier's office prepares the deposit. If errors have been noted, the same employee may access the motor vehicle records and make adjustments. These adjustments are not traceable as no record is made of the adjustment. Access to the system by the cashier's office is unnecessary, and should be removed to strengthen the segregation of duties. The responsibility for correcting errors and balancing batches should remain with the counter personnel. If the cashier's office notices any errors, both the cashier and the counter personnel should agree on the adjustment that is needed.

Additionally, responsibilities for processing refunds are not adequately separated. Four individuals receive and process refund claims, at times reviewing system documentation, or microfilmed records to verify claim information. Copies of documentation reviewed are not always attached to the claims. Additionally, two of the same individuals reconcile the list of refunds processed to actual warrants issued. These procedures do not provide for any independent verification, nor is there adequate assurance that all refunds are properly issued or recorded.

In each case there is a need to segregate incompatible functions. Proper separation provides some assurance that errors or irregularities will be detected in the normal course of business.

RECOMMENDATION:

Motor vehicle registrations should be reviewed and compared to system documentation by someone independent of the front counter duties.

RESPONSE:

The auditor will do the same spot checking as the combined processing group (CPG) auditor currently does as recommended. Additionally, the counter supervisor will also review the work for accuracy in fees collected, base values, odometer readings as well as statutory and departmental requirements. This will strengthen the segregation of duties.

The individual who handles the deposits will no longer have access to motor vehicle correction screens nor to the money screens other than the close-out screen. Correcting records will be done by an OSS I (Office Services Supervisor) or above.

RECOMMENDATION:

Deposits should not be prepared by an individual able to access motor vehicle records.

RESPONSE:

Staff in the cashiers unit has had clearance level changes made to allow them access to batch close-out screens only. They no longer have access to screens that allow motor vehicle records to be altered or corrected, nor do they have access to money correction screens. In addition, the cashiers unit will now follow similar procedures followed in the CPG groups in the auditing of documents.

RECOMMENDATIONS:

Supporting documentation should be attached to all material refunds, and independently verified on statewide accounting records.

RESPONSE:

The refund unit supervisor will conduct the verification of the computer generated refund warrant listing against actual refund applications. The unit supervisor does not have access to refund entry screens. After the verification of refund is made, the records will be maintained so there will be no duplication of records.

FINDING THREE: A subrecipient audit resolution process has not been fully established.

The department has not been adequately monitoring the single audit coverage of its subrecipients. The Single Audit Act of 1984 requires, in Section 7502 (e) that:

Each State and local government subject to the audit requirements of this chapter, which receives Federal financial assistance and provided \$25,000 or more of such assistance in any fiscal year to a subrecipient, shall--

(A) if the subrecipient conducts an audit in accordance with the requirements of this chapter, review such audit and ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipient by the State or local government; or

(B) if the subrecipient does not conduct an audit in accordance with the requirements of this chapter--

(i) determine whether the expenditures of Federal financial assistance provided to the subrecipient by the State or financial assistance provided to the subrecipient by the State or local government are in accordance with laws and regulations; and

(ii) ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipients by the State or local government.

The Department of Finance coordinates the monitoring activities of state agencies to ensure that state subrecipients receive sufficient single audit coverage. Finance has issued directives to state agencies concerning their responsibilities in monitoring subrecipients. In July 1988, Finance formalized the directives into the Accounting Operations Manual policy and procedures.

The Department of Public Safety has failed to establish a satisfactory subrecipient audit resolution process in two respects:

-- The department has not ensured that an acceptable audit was performed on all subrecipients. The State Auditor's report is reviewed by the department, however three subrecipients were not listed in the report. These subrecipients were not contacted.

-- The department has not reviewed individual subrecipient reports to ensure prompt and corrective action is taken on material findings.

RECOMMENDATION:

Public Safety should establish an appropriate audit resolution process for its subrecipients. Specifically, the process should ensure that:

- 1) all required subrecipients have acceptable audits performed; and
- 2) individual subrecipient reports are reviewed to ensure prompt and corrective action is taken on material findings.

RESPONSE:

Since the inception of the Single Audit Act, the department has followed the policy and procedures outlined by the Department of Finance (DOF). Public Safety incorporated language in all contracts with subrecipient's of federal funds that stated the single audit requirements. On an annual basis, we have certified to DOF that we have an audit contract clause in all contracts with subrecipients. This has insured that subrecipients are contractual obligated to comply with the federal laws, guidelines and regulations as they pertain the Single Audit Act.

Prior to July, 1988, the department had monitored subrecipient single audit compliance using the State Auditor's Report on subrecipients. This monitoring would include the resolution of any findings relevant to the departments federal grants. Our review of the State Auditor's Report did not disclose any material findings on any of the subrecipients.

Upon DOF's directive(Statewide Accounting Procedure 06:05:36) of July, 1988 the department has taken a number of steps to increase subrecipient monitoring. In August and September of 1988, the department required all subrecipients under the terms of the grant agreement to submit audit reports to our department for review. A detail log was developed to record the submission of audit reports and the resolution of audit findings. The department will be allocating more resources for the review of audit reports and for the resolution of any audit problems, audit findings, and to handle cross-cutting findings for which the department is the state cognizant agency.

Of the three subrecipients mentioned in the finding, we have received audit reports from two of the subrecipients, the cities of Crystal and Robbinsdale. There were no material audit findings in either of the reports. The third subrecipient, the Minnesota County Attorney's Association has an audit period ending date of September 30, 1988. According to federal regulations, this subrecipient has six months to have an audit completed.

Mr. James R. Nobles,
Legislative Auditor
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In that the scope of the audit was limited to Disaster Relief, federal catalog number 83.516, it should be noted the Minnesota County Attorney's Association, did not participate in the Disaster Relief Program and the city of Robbinsdale, received less than \$25,000 in federal funds in fiscal year 1988. Subrecipients receiving less than \$25,000 are not required to be audited under OMB Circular A-128. Also, it should be further noted that all Disaster Relief subrecipients were required to submit a copy of their audit reports to our department for our review.

The department is aware of its responsibilities in regards to the Single Audit Law of 1984. The department is taking a number of steps to improve the monitoring of subrecipient audit reports. We are now reviewing each audit report and maintaining a log to track the submission and resolution of any audit problems or findings. Also, being a state cognizant agency for cross-cutting findings for a number of subrecipients, the department will inform all affected agencies of our review and any possible cross-cutting resolutions.

Sincerely,

A handwritten signature in cursive script, reading "Paul Tschida".

Paul J. Tschida
Commissioner
Department of Public Safety