

**DEPARTMENT OF PUBLIC SAFETY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991**

JANUARY 1992

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

DEPARTMENT OF PUBLIC SAFETY

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1991

Public Release Date: January 31, 1992

No. 92-5

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Motor vehicle registrations and fees collected by the mail issue and prorate sections and the deputy registrars; refunds authorized by the prorate section; prorate section fuel tax receipts; and payroll.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found three areas where the internal control structure needed improvement:

- The department does not verify the accuracy of its receipts and refunds in the prorate section.
- The department did not properly control license renewal receipts and transmit money owed to other states.
- Controls over the mail issue section's license stickers need improvement.

We found one area where the department had not complied with finance-related legal provisions:

- The department did not transmit receipts to other jurisdictions timely.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Thomas Frost, Commissioner
Department of Public Safety

Audit Scope

We have conducted a financial related audit of the Department of Public Safety for the year ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Public Safety, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Public Safety in effect during June 1991. Because the department substantially modified the International Fuel Tax Agreement system, we studied its internal control structure as of August 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Department of Public Safety are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Public Safety's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Department of Public Safety is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- motor vehicle registrations and fees collected by the mail issue section, deputy registrars, and the prorate section;
- refunds of motor vehicle taxes and fees authorized by the prorate section;
- fuel tax receipts collected by the prorate section;
- refunds of fuel taxes authorized by the prorate section; and
- payroll.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in Section II, findings 1, 2, and 4, involving the internal control structure of the Department of Public Safety. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistently.

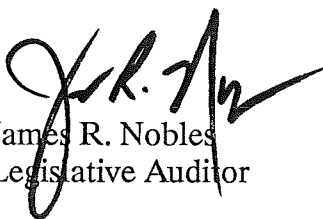
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk

that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable condition described in finding 1 is a material weakness.

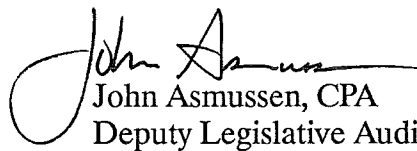
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Public Safety in a meeting held on December 20, 1991.

The results of our tests indicate that, except for the issue discussed in finding 3, with respect to the items tested, the Department of Public Safety complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Public Safety had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and 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 January 31, 1992.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: October 18, 1991

Report Signed On: January 28, 1992

Department of Public Safety

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Chris Buse, CPA	Auditor-in-Charge
Amy Jorgenson	Auditor
Mark Johnson	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff on December 20, 1991:

Dick Carlquist	Deputy Commissioner
Debra Montgomery	Assistant Commissioner
Katherine Burke-Moore	Director, Driver and Vehicle Services
Jack Wildes	Assistant Director, Driver and Vehicle Services
Marilyn Gaiovnik	Prorate Supervisor
Carl Peaslee	Mail Issue Supervisor
Daniel Boytim	Assistant Director, Fiscal Services
Marilyn Smith	Fiscal Services

Department of Public Safety

Introduction

The Department of Public Safety provides education and public assistance services to Minnesota's citizens. The department administers and enforces laws relating to drivers, vehicles, traffic, liquor sales, drug abuse prevention, gambling, natural and man-made disasters, criminal activities, and fire risks. Its principal responsibility is to maintain a safe environment for citizens of Minnesota. Thomas Frost is the current commissioner of the department.

The Department of Public Safety collects excise tax on motor vehicles. The department issues vehicle registration plates and stickers. Its responsibilities include collecting registration and fuel taxes for Minnesota and other states which are members of interstate agreements. The prorate and fuel tax refunds identified below are the amounts collected by Minnesota for other states.

Public Safety collects a significant amount of the state's receipts. During fiscal year 1991, Public Safety collected total revenue of more than \$660 million including:

Motor Vehicle Licenses	\$351,663,469
Motor Vehicle Excise Taxes	236,719,958
Fuel Taxes	8,097,502
Other Revenue	<u>63,684,804</u>
Total	<u>\$660,165,733</u>

Public Safety receives the majority of its funding through direct appropriation from the Trunk Highway Fund, the General Fund, and the Highway User Tax Distribution Fund. Public Safety's total expenditures for fiscal year 1991 were about \$141 million including:

Personnel Services	\$ 73,307,455
Prorate Refunds	17,960,619
Fuel Tax Refunds	6,630,592
Other Expenditures	<u>43,052,199</u>
Total	<u>\$140,950,865</u>

Source: Statewide Accounting System's Managers Financial Report and the Estimated/Actual Receipts Report as of 8/31/91.

Current Findings and Recommendations

1. Internal controls over the prorate section's receipts and refunds are inadequate.

The Department of Public Safety does not verify the accuracy of its receipts and refunds in the prorate section. As a result, errors occurred and went undetected. The department could have found these and other potential errors by reconciling its computerized accounting records with the actual cash receipts and disbursements recorded in the Statewide Accounting System (SWAS).

Prorate has two computerized accounting systems. The Vehicle Information System for Tax Apportionment (VISTA) records receipts from Minnesota trucking companies licensed under the International Registration Plan. The VISTA system also calculates the portion of these fees that Minnesota must pay to the other participating jurisdictions. The International Fuel Tax Agreement (IFTA) system operates under a similar principle. Minnesota trucking companies must file quarterly returns which detail fuel taxes owed to the IFTA jurisdictions they traveled through. The carriers must enclose a check with their return if they owe additional fuel taxes. The IFTA system will calculate refunds for those carriers whose returns show fuel taxes overpaid. On a monthly basis, the system summarizes the IFTA returns filed and generates transmittals. These transmittals list the net fuel tax amounts that Minnesota must pay to or collect from the other IFTA jurisdictions. Errors or irregularities could occur and go undetected because the department does not reconcile these systems' transactions with the SWAS payments and deposits.

The department does not have control procedures to detect inaccurate or unauthorized payments posted to carriers' accounts. We found 33 instances where fuel tax returns were entered in the IFTA system more than once or under the wrong account numbers. These data entry errors caused Minnesota to overpay ten participating IFTA jurisdictions \$52,067, and underpay five others \$11,354. The department could have detected these data entry errors if it reconciled the amounts posted to the system to the receipts deposited in the treasury. It is also difficult for the department to detect unauthorized or inaccurate refunds. No one reconciles the refunds actually paid to the amounts authorized by the system. The department paid 32 Minnesota trucking companies duplicate fuel tax refunds totalling \$25,340 during fiscal year 1991. The department did not detect or recover 18 of these duplicate refunds, totalling \$2,332. To improve controls, the prorate section must reconcile their computerized accounting systems to the receipts and disbursements recorded in the SWAS.

Department of Public Safety

Recommendations

- *The department should reconcile the VISTA and IFTA systems to the actual cash receipts and disbursements recorded in SWAS.*
- *The department should contact the applicable IFTA jurisdictions and Minnesota carriers and remedy the over and underpayments.*

2. The department did not properly control license renewal receipts and transmit money owed to other states.

The Vehicle Information System for Tax Apportionment (VISTA) system caused several problems in licensing International Registration Plan (IRP) truckers. As many as 200 Minnesota trucking companies received duplicate license stickers and cab cards for their vehicles. For at least four months, the department could not enter payments in VISTA or generate delinquency reports to identify carriers that had not paid. The department was unable to send license fees to the other IRP jurisdictions on a monthly basis, as required by the IRP, because the system would not generate accurate transmittal reports. Unforeseen problems with the VISTA system also increased the agency's processing costs. The VISTA system could not print cab cards as fast as the previous system and only had enough memory to process 200 transactions per day. Therefore, the agency's costs increased because employees had to work three shifts per day to process annual license renewals.

The department failed to properly test VISTA prior to its implementation. The department bought VISTA in August 1990 to replace the existing system which was expensive to maintain and program. VISTA's primary purpose is to record receipts from Minnesota trucking companies licensed under the International Registration Plan (IRP). The system also computes the portion of these license fees that Minnesota must send to other IRP jurisdictions. The department entered transactions in both the old system and VISTA for one month to cross-check VISTA's processing accuracy. However, it did not test VISTA's ability to process license renewals. As a result, the department did not discover that VISTA would not process annual license renewals accurately until after it had been implemented.

It is important to test new systems thoroughly because conversion errors can have far reaching impacts. In the future, the department should test new systems before implementation to verify that they function as intended. The department should not shut down existing systems before completing this testing.

Recommendation

- *The VISTA system should be corrected to ensure proper licensing.*

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3. The department did not transmit receipts to other jurisdictions timely.

As a result of the system conversion problems discussed in finding 2, the department did not comply with receipt transmittal procedures outlined in the International Registration Plan (IRP) and International Fuel Tax Agreement (IFTA). The department is responsible for collecting license fees and fuel taxes for other states and Canadian provinces. The IRP and IFTA procedures require states to forward these receipts to the other jurisdictions by the last day of the following month. The department collected IRP license fees totalling \$15,000,000 between October 1990 and April 1991. However, it did not send these receipts to the other jurisdictions until June 1991. The department also did not send other jurisdictions their IFTA receipts by the due date. For 10 of 15 tax returns tested, Minnesota did not send IFTA receipts to the other jurisdictions by the last day of the following month. In one instance, the department waited until April to send Wisconsin their January 1991 fuel tax receipts totalling \$180,966.

Recommendation

- *The department should send all IRP and IFTA receipts to the other jurisdictions by the last day of the following month.*

4. Internal controls over the mail issue section's license stickers need improvement.

Internal controls over the mail issue section's license stickers are weak for two reasons. First, an employee responsible for issuing license stickers also performs the physical inventory count. Second, employees are not accurately recording all sticker issuances in the computerized inventory records. These control weaknesses increase the chance of errors or irregularities occurring and not being detected in a timely manner.

A mail issue supervisor performs incompatible accounting duties. The supervisor collects receipts, prepares deposits, and issues license stickers. On an annual basis, she also counts the prior year's unsold stickers. No one compares her inventory report to the obsolete license stickers before they are destroyed. Internal controls are weak whenever one employee is responsible for all recordkeeping and custodial duties without independent oversight. To improve controls, a person independent of the receipt processing functions should count the license stickers and investigate any shortages.

The mail issue and deputy audit sections are not keeping accurate inventory records for some passenger car stickers. The department controls a portion of the passenger car license stickers on a microcomputer based inventory system. Mail issue employees list sticker and plate numbers on log sheets as they sell them. The deputy audit section uses these log sheets to enter sticker issuances in the inventory system. The system produces an inventory status report that identifies missing license stickers. However, employees are not investigating why these stickers are missing or correcting their status in the system. The

Department of Public Safety

inventory system still reports 1700 stickers from registration year 1990 as missing even though mail issue sold them between August and November 1989. The system also lists 626 stickers from registration year 1991 as missing. Mail issue sold these stickers between February and November 1990. Mail issue employees are unable to locate 12 other license stickers that are missing from both the inventory system and their log sheets. Finally, we found 77 license stickers in the mail issue section that the inventory system lists as sold. Thefts of license stickers could occur and go undetected because employees are not keeping accurate inventory records. The mail issue and deputy audit sections must work together to correct these record keeping deficiencies.

Recommendations

- *The department should verify that license stickers are counted by a person independent of the receipt process duties.*
- *The mail issue and deputy audit sections should work together to determine why stickers are missing from the inventory system.*
- *The mail issue and deputy audit sections should correct inventory system errors in a timely manner.*

OFFICE OF THE COMMISSIONER

211 Transportation Building

296-6642

Telephone: _____



STATE OF MINNESOTA

DEPARTMENT OF PUBLIC SAFETY

SAINT PAUL 55155

January 23, 1992

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

Dear Mr. Nobles:

On January 8, 1992 Margaret Jenniges sent Commissioner Thomas Frost a copy of the Department of Public Safety's preliminary audit report and a cover letter. In the letter she requested a written response to the findings and recommendations be sent to you.

Comments on the recommendations are in the order presented in your preliminary report.

Kathy Burke Moore, Director of Driver and Vehicle Services Division, and Frank Ahrens, Director of the Office of Fiscal and Administrative Services, will be responsible for the implementation of the recommendation for finding number one. Finding number two and three have already been implemented. Kathy Burke Moore and Tami Bartholomew, supervisor of the Deputy Audit Unit, will be responsible for the implementation of the recommendations for findings number four.

FINDING NUMBER ONE: Internal controls over the prorated section's receipts and refunds are inadequate.

The Department of Public Safety does not verify the accuracy of its receipts and refunds in the prorated section. As a result, errors occurred and went undetected. The department could have found these and other potential errors by reconciling its computerized accounting records with the actual cash receipts and disbursements recorded in the Statewide Accounting System (SWAS).

RECOMMENDATIONS:

- * The department should reconcile the VISTA and IFTA systems to the actual cash receipts and disbursements recorded in SWAS.
- * The department should contact the applicable IFTA jurisdictions and Minnesota Carriers and remedy the over and underpayments.

RESPONSE:

- 1.) The department concurs on the recommendations for IFTA and VISTA. The IFTA fuel tax receipts and refunds will be reconciled to SWAS. Every effort will be made by the agency to come up with a procedure to reconcile VISTA to the actual cash receipts and disbursements to SWAS.
- 2.) The department concurs. The other jurisdictions and carriers have been notified and the corrections should be completed by the end of January of 1992.

FINDING NUMBER TWO: The department did not properly control license renewal receipts and transmit money owed to other states.

The Vehicle Information System for Tax Apportionment (VISTA) system caused several problems in licensing International Registration Plan (IRP) truckers. As many as 200 Minnesota trucking companies received duplicate license stickers and cab cards for their vehicles. For at least four months, the department could not enter payments in VISTA or generate delinquency reports to identify carriers that had not paid. The department was unable to send license fees to the other IRP jurisdictions on a monthly basis, as required by the IRP, because the system would not generate accurate transmittal reports. Unforeseen problems with the VISTA system also increased the agency's processing costs...

The department failed to properly test VISTA prior to its implementation...

RECOMMENDATION:

- * The VISTA system should be corrected to ensure proper licensing.

RESPONSE:

The department concurs. The programming to correct problems with IRP processing was completed in February of 1991.

FINDING NUMBER THREE: The department did not transmit receipts to other jurisdictions timely.

As a result of the system conversion problems... the department did not comply with receipt transmittal procedures outlined in the International Registration Plan (IRP) and International Fuel Tax Agreement (IFTA). The department is responsible for collecting license fees and fuel taxes for other states and Canadian provinces. The IRP and IFTA procedures require states to forward these receipts to the other jurisdictions by the last day of the

following month. The department collected IRP license fees totalling \$15,000,000 between October 1990 and April 1991. However, it did not send these receipts to the other jurisdictions until June 1991. The department also did not send other jurisdictions their IFTA receipts by the due date. For 10 of the 15 tax returns tested, Minnesota did not send IFTA receipts to the other jurisdictions by the last day of the following month. In one instance, the department waited until April to send Wisconsin their January 1991 fuel tax receipts totalling \$180,966.

RECOMMENDATION:

- * The department should send all IRP and IFTA receipts to the other jurisdictions by the last day of the following month.

RESPONSE:

A procedure to ensure that payments will be issued in a timely manner has been implemented.

FINDING NUMBER FOUR: Internal controls over the mail issue section's license stickers need improvement.

Internal controls over the mail issue section's license stickers are weak for two reasons. First, an employee responsible for issuing license stickers also performs the physical inventory count. Second, employees are not accurately recording all sticker issuances in the computerized inventory records. These control weaknesses increase the chance of errors or irregularities occurring and not being detected in a timely manner.

RECOMMENDATIONS:

- * The department should verify that license stickers are counted by a person independent of the receipt process duties.
- * The mail issue and deputy audit sections should work together to determine why stickers are missing from the inventory system.
- * The mail issue and deputy audit sections should correct inventory system errors in a timely manner.

RESPONSE:

- 1.) The department concurs. The supervisor of the Deputy Audit Unit, Tami Bartholomew, will review the mail Issue inventory of unsold stickers before they are destroyed.
- 2.) The department concurs. The Mail Issue Unit will check for

any stickers listed as missing on the inventory system each week. The errors will be reported to the Deputy Audit Unit, where corrections will be made. A new report will be provided to the Mail Issue Unit after the corrections have been made.

- 3.) The department concurs. The procedures described in response to the recommendation above will resolve this problem. All corrections will be made within one week.

Sincerely,



Richard J. Carlquist
Acting Commissioner
Department of Public Safety

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