

DEPARTMENT OF PUBLIC SAFETY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1992

MAY 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-25



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael Jordan, 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, 1992. 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 1992.

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 license fees collected by the mail issue section, deputy registrars, and the prorated section;
- motor vehicle excise tax collected by the deputy registrars;
- payroll; and
- Drug Control and Systems Improvement Formula Grant (CFDA 16.579).

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 1-5, 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 meetings held on October 14, 1992 and February 11, 1993.

The results of our tests indicate that, except for the issues discussed in findings 4 and 5, 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 May 28, 1993.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: September 1, 1992
February 11, 1993 for the Drug Control and Systems
Improvement Formula Grant program

Report Signed On: May 21, 1993

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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 |
| Mary Jacobson, CPA | Auditor |
| Amy Jorgenson | Auditor |
| Christina Weiss | Auditor |

Exit Conference

The findings and recommendations in this report were discussed with the following staff:

October 14, 1992:

| | |
|---------------------|---|
| Debra Montgomery | Assistant Commissioner |
| Kathryn Burke-Moore | Director of Driver and Vehicle Services |
| Jack Wildes | Assistant Director of Driver and Vehicle Services |
| Frank Ahrens | Director of Fiscal Services |
| Dan Boytim | Assistant Director for Fiscal Services |
| Marilyn Smith | Accounting Officer |
| Mike Ryan | Titles and Registration Supervisor |
| Carl Peaslee | Data Processing Supervisor |
| Marilyn Gavionik | Prorate Supervisor |
| Marge Noll | Assistant Prorate Supervisor |

February 11, 1993:

| | |
|------------------|--|
| Debra Montgomery | Assistant Commissioner |
| Kevin Burns | Assistant Commissioner |
| William Collins | Acting Director, Office of Drug Policy |
| Dan Boytim | Assistant Director for Fiscal Services |
| Marilyn Smith | Accounting Officer |

Department of Public Safety

Introduction

The Department of Public Safety's principal responsibility is to maintain a safe environment for the citizens of Minnesota. 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. It also provides education and public assistance services to Minnesota's citizens. Mr. Thomas Frost was the commissioner during our audit. On December 8, 1992, Governor Carlson appointed Mr. Michael Jordan as commissioner.

The Driver and Vehicle Services Division collects excise tax on vehicle sales and distributes these receipts to the state's General and Local Government Trust Funds. Driver and Vehicle Services also issues vehicle registration plates and stickers. Part of the agency's responsibilities include collecting trucking company registration and fuel taxes for Minnesota and other states which are members of interstate agreements.

The Office of Drug Policy coordinates state and local drug policies for Minnesota. It also develops state strategies to fight drug abuse and is responsible for the distribution of the federal Drug Control and Systems Improvement Formula Grant.

Public Safety collects a significant amount of the state's receipts. During fiscal year 1992, it collected total revenue of \$728.6 million, as follows:

| | |
|----------------------------|----------------------|
| Motor Vehicle Licenses | \$370,650,000 |
| Motor Vehicle Excise Taxes | 270,356,000 |
| Other Revenue | <u>87,590,000</u> |
| Total | <u>\$728,596,000</u> |

Public Safety receives the majority of its funding through direct appropriations from the Trunk Highway, General, and Highway User Tax Distribution Funds. The department's expenditures for fiscal year 1992 were approximately \$145.5 million, as follows:

| | |
|--|----------------------|
| Personnel Services | \$73,415,000 |
| Drug Control and Systems Improvement Formula Grant | 7,052,000 |
| Other Expenditures | <u>65,023,000</u> |
| Total | <u>\$145,490,000</u> |

Source: Statewide Accounting System's Managers Financial Report and the Estimated/Actual Receipts Report as of 9/5/92.

Current Findings and Recommendations

1. **PRIOR FINDING NOT RESOLVED: Internal controls over the prorated section's receipts and refunds are inadequate.**

The Department of Public Safety is not verifying the accuracy of its receipts and refunds in the prorated section. As a result, errors occur and go undetected. The department could find these and other potential errors by reconciling its computerized accounting records to the actual cash receipts and disbursements in the Statewide Accounting System (SWAS).

The prorated section used the Vehicle Information System for Tax Apportionment (VISTA) to record receipts totalling \$31,119,000 from Minnesota trucking companies licensed under the International Registration Plan. This system also computes the portion of these fees that Minnesota owes to other participating jurisdictions. Inaccurate or unauthorized amounts posted to carrier's accounts could go undetected because the department does not reconcile these transactions with amounts recorded on SWAS.

Prorate has another computerized accounting system which records license fees collected from other jurisdictions. According to these records, the department collected \$10,522,677 from other jurisdictions during fiscal year 1992. However, the actual deposits recorded in SWAS total only \$10,152,000. The department was unaware of this \$370,722 discrepancy because it did not reconcile these two sets of records. We investigated this difference and found 12 data entry errors in the computerized accounting records. These data entry errors caused overstatements totalling \$134,774. Two other improperly coded deposits caused \$96,586 in SWAS understatements. We could not determine the cause of the remaining \$139,362 difference between these two sets of records.

Recommendations

- *The department should reconcile its computerized accounting records to the actual cash receipts and disbursements recorded in SWAS.*
- *The department should determine the cause of the remaining \$139,362 variance and correct the accounting records, as necessary.*

2. **Internal controls over motor vehicle license fees need improvement.**

The Department of Public Safety's internal controls over license fees are weak for two reasons. First, the department is not assigning accurate base values to some vehicles. Second,

Department of Public Safety

the department is not contacting vehicle owners to remedy license fee errors made by dealers or deputy registrars. The department uses a standardized application for title to register new vehicles. Usually, automobile dealers complete these forms and collect the necessary license fees from the purchaser. Deputy registrars then review these applications and deposit the license fees in the State Treasury. Agency employees examine these applications a second time when recording the vehicles on the Motor Vehicle System. However, they are not detecting and correcting many base value and license fee errors. We found many errors which were not detected by the review process.

The department does not always investigate or correct base value and license fee discrepancies when initially registering vehicles. A Motor Vehicle System edit helps data entry clerks confirm the accuracy of base values. When employees enter a vehicle identification number, the system displays the base value for that particular make and model. The system's base values should match amounts listed on title applications. If the value differs, the input operators should consult the Official Base Value Supplement to determine which amount is correct. Some employees are diminishing the effectiveness of this control by entering base values in the Motor Vehicle System without first confirming their accuracy.

The department made numerous errors when entering base values in the Motor Vehicle System. We randomly selected 100 new vehicles recorded in the system during fiscal year 1992 and found:

- Automobile dealers recorded 11 base values inaccurately on title applications and collected the wrong fees. The department did not issue refunds or collect additional fees from any of these owners. The department compounded dealer errors in three instances by entering the inaccurate base values in the system.
- The department entered inaccurate base values in the system in seven instances even though dealers recorded the correct amounts on title applications.

Erroneous base values posted to the Motor Vehicle System cause inaccurate license fee assessments in future years. In January 1989, the department assigned a \$24,586 base value to one vehicle. However, the correct base value according to the Official Base Value Supplement was only \$17,666. As a result, the department overcharged this vehicle owner license fees totalling \$352 over five years. To prevent future errors, the department should verify the accuracy of all base values before posting transactions to the Motor Vehicle System. Upon finding errors, the department should contact vehicle owners to correct license fee over or underpayments.

Recommendations

- *The department should verify the accuracy of base values before posting them to the Motor Vehicle System.*

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Recommendations (Continued)

- *The department should contact vehicle owners to correct license fee under and overpayments on initial registrations.*
- *The department should remedy all existing base value errors in the Motor Vehicle System.*

3. Internal controls over motor vehicle title transfers need improvement.

The Department of Public Safety does not have controls to prevent or detect unauthorized title transfers. The department and its deputy registrars jointly process motor vehicle title transfers. Deputy registrars collect title applications from customers and deposit excise tax receipts in the State Treasury. They also list all excise tax receipts on daily transaction reports. The department uses these daily transaction reports to enter transfers in the Motor Vehicle System and prints titles. However, the department does not review the system output to ensure processing accuracy. Also, the department does not reconcile the number or dollar value of titles transferred to amounts recorded on deputy registrar's daily reports. As a result, unauthorized title transfers entered in the Motor Vehicle System could occur and remain undetected.

Recommendation

- *The department should develop procedures to minimize the risk of unauthorized motor vehicle title transfers.*

4. Internal controls over the Drug Control and Systems Improvement Formula Grant need improvement.

Internal controls over the Drug Control and Systems Improvement (DCSI) Formula Grant are weak for several reasons. The department is not preparing accounting records which contain sufficient detail or include all required elements. Also, the department is not following guidelines for managing federal cash, executing contracts, and monitoring subgrantees. These control weaknesses are exposing grant funds to unnecessarily high financial risks.

The department is not preparing control or subsidiary ledgers for the DCSI Formula Grant. Control ledgers summarize financial activity at the grant level. This information is necessary to prepare federal financial reports and monitor compliance with grant provisions. Currently, the department saves no supporting documentation for its federal financial reports. Subsidiary ledgers detail financial activity of individual subgrants. Without this information, it is difficult to control subgrantee cash advances and expenditure reimbursements. The department did not make one \$13,463 payment to a subgrantee which employees did not detect until closing the grant. The department also reimburses subgrantees for their final

Department of Public Safety

expenditures without first deducting cash advances. Grant coordinators who authorize these payments do not have cash advance records. When questioned, one grant coordinator had to contact a subgrantee because he could not determine if a \$22,213 cash advance was repaid. To improve controls, the department should develop control and subsidiary ledgers.

The department's cash management system allows subgrantees to maintain excessive cash balances. Grant coordinators advance subgrantees 10 - 25 percent of their award to use as operating cash. The department then pays subgrantee's for their actual costs after submission of monthly or quarterly expenditure reports. The department paid one subgrantee \$3,106 for its first month's expenditures even though it had \$11,394 of its cash advance remaining. Federal regulations require grantees to limit cash balances to amounts necessary to meet immediate program needs. Therefore, the department should develop procedures to keep subgrantee cash at minimal levels.

The department incurs obligations without first executing contracts with subgrantees. Contracts are an important internal control because they document the rights and responsibilities of all parties. Minn. Stat. Section 16B.06 states that a contract is not valid until the contract is executed and the funds encumbered. We reviewed ten subgrants awarded by the department and found only one with a properly executed contract. In one case, the department let a subgrantee incur obligations totalling \$205,797 before executing a contract. To improve controls, the department should execute contracts before allowing subgrantees to perform services.

The department is not following program guidelines for monitoring subgrantees. The United States Department of Justice requires grantees to monitor subgrantee's financial operations, records, systems, and procedures. However, the department only reviewed two of the ten subgrantees we tested.

Recommendations

- *The department should prepare control and subsidiary accounting records for the DCSI Formula Grant.*
- *The department should develop procedures to minimize subgrantee cash balances.*
- *The department should execute contracts before allowing subgrantees to perform services.*
- *The department should review the financial operations of all subgrantees.*

Department of Public Safety

5. The department is not reporting or controlling drug forfeiture income.

The department is not including drug forfeiture income in its federal financial status reports. The department uses the Drug Control and System Improvement Formula Grant to fund 30 narcotic task forces. These task forces confiscate large amounts of cash and property during drug raids. Task forces submit monthly reports which detail all seized and forfeited assets. However, the department does not compile this information and report it to the United States Department of Justice. Proceeds from the sale of seized and forfeited assets are program income. Federal regulations require grantees to include all program income in their quarterly financial status reports.

The department also is not monitoring the disposition of drug forfeiture proceeds. Law enforcement agencies must deposit ten percent of all drug forfeiture proceeds in the state's General Fund. The department tells task forces to send the state's percentage directly to the State Treasurer. However, employees do not review deposits or other supporting documentation to determine if task forces send the proper amounts.

Recommendations

- *The department should include all program income in its federal financial status reports.*
- *The department should develop procedures to verify the accuracy of drug forfeiture deposits.*

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May 7, 1993

STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
SAINT PAUL 55155-1889

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

Dear Mr. Nobles:

On April 20, 1993, Margaret Jenniges sent to my office 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. Below you will find my response to your preliminary audit report for the Department of Public Safety for the fiscal year ended June 30, 1992.

FINDING NUMBER ONE:

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

RECOMMENDATION:

The department should reconcile its computerized accounting records to the actual cash receipts and disbursements records in SWAS.

RESPONSE:

This was a prior audit finding not resolved from the 1991 audit of the department. For several years, the department has been working towards a solution to this problem of reconciliation of the internal computer system to State Wide Accounting System (SWAS). We have reported our progress in complying with this audit finding on a quarterly basis to the Governor, Department of Finance and your office. Currently, we are working with the manufacturer (Lockheed) of the Vehicle Information System for Tax Apportionment (VISTA) system. Lockheed has made a commitment to complete the needed programming changes prior to the end of this fiscal year. With these software programming modifications, Driver and Vehicle Services (DVS) will have the ability to reconcile the VISTA system to SWAS monthly. The person working with Lockheed is Marilyn Gaiovnik of DVS.

For over a year the department has been reconciling monthly. We requested reports from the Department of Finance dating back to July of 1991 when these procedural changes in DVS were implemented.

RECOMMENDATION:

The department should determine the cause of the remaining \$139,362 variance and correct the accounting records, as necessary.

RESPONSE:

All but \$771 of the variance has been reconciled. In addition, major changes have been implemented in the accounting process to eliminate these problems in the future.

FINDING NUMBER TWO:

Internal controls over motor vehicle license fees need improvement.

RECOMMENDATION:

The department should verify the accuracy of base values before posting them to the motor vehicle system.

RESPONSE:

The following steps have been taken to insure the accuracy of the passenger vehicle base values:

1. Edits have been built into the computer program. The computer checks the value that the data entry operator has entered with that generated by the VIN edit.

The operators were instructed that it is their responsibility to verify the accuracy of the base value. When there is doubt a "look up" must be made to verify the correct base value.

2. We asked R.L.Polk, the vendor of the base value tapes, to periodically update their tapes to reflect the proper values.

3. The base value supplements were reissued with the correct base values shown.

4. The computer was programmed so that the base value will match that shown in the base value book (and supplements.) However, each year when the new models come out we will have to rely on invoice figures from dealers.

5. Deputy registrars have been instructed to verify all paperwork submitted to this department, including the base values. This process was discussed at Deputy School. In addition, the November 1992 Deputy Bulletin included a clarification statement from Jack Wildes, Assistant Director of DVS, declaring that when there are two or more base values given for "different" models with the same VIN identification code, we will always select the lowest of the base values and

assign that value to the vehicle."

6. A memo was sent to the Minnesota Automobile Dealers Association informing them of their responsibility in declaring the proper base value, and telling them where they could purchase base value guides.

RECOMMENDATION:

The department should contact vehicle owners to correct license fee under and over payments on initial registrations.

RESPONSE:

Where the process determines that the base value is incorrect, the customer is contacted and informed of the correct dollar amount still owed for registration tax; or the customer is issued a refund if the amount is over \$5.00.

RECOMMENDATION:

The department should remedy all existing base value errors in the motor vehicle system.

RESPONSE:

The suggestion that all existing base value errors in the motor vehicle system be corrected is of merit, but currently financially unfeasible. A system could be programmed that would accommodate a great majority of the passenger vehicles on line, however, there would still be many thousands of vehicles that would require manual look up and processing.

FINDING NUMBER THREE:

Internal controls over motor vehicle title transfers need improvement.

RECOMMENDATION:

The department should develop procedures to minimize the risk of unauthorized motor vehicle title transfers.

RESPONSE:

The department has procedures in place that should minimize the risk of unauthorized motor vehicle title transfers. Currently, two employees known as "Deputy Compliance Officers" review title transfer documents. These individuals review documents that have been entered through the central processing groups. One of the items they check for is the official deputy registrar validation stamp, which should appear in the upper right hand corner of each document. This stamp is unique in it's design and contains the

identifying number of the deputy who completed the document and collected the taxes and fees. Any attempt to duplicate this stamp would be most difficult.

Although it is not possible to check every document, a large number are examined and an ongoing unauthorized title activity would surely be discovered. Additionally, these individuals are responsible for insuring that appropriate fees and taxes have been accurately calculated by the agent. Finally, this review activity is known by the processing group personnel and this in itself should serve as a deterrent.

FINDING NUMBER FOUR:

Internal controls over the Drug Control and Systems Improvement Formula Grant need improvement.

RECOMMENDATION:

The department should prepare control and subsidiary accounting records for the DCSI Formula Grant.

RESPONSE:

The Office of Drug Policy and Violence Prevention along with the Office of Information Systems Management are developing a grants management system. This comprehensive system will be ready for data input by May 15, 1993, with approximately 600 grants (3 years) being entered by June 30, 1993. The person responsible for implementation of this system is William L. Collins.

RECOMMENDATION:

The department should develop procedures to minimize sub-grantee cash balances.

RESPONSE:

The grants management system referred to above will assist the agency in tracking each sub-grantees cash on hand. Procedures will be established to monitor sub-grantee cash on hand balances and to maintain sub-grantee cash at minimal levels.

RECOMMENDATION:

The department should execute contracts before allowing sub-grantees to perform services.

RESPONSE:

We have consulted with the Department of Finance on this issue. Their position is that the state is not obligated under grant agreements until the agreement is fully executed. The Department

of Finance does not consider this to be a violation of Minn. Stat. 16A.15 Subd. 3, incurring an obligation prior to there being an encumbrance in SWA.

RECOMMENDATION:

The department should review the financial operations of all sub-grantees.

RESPONSE:

With the completion of the grants management system and the restructuring of the Office of Drug Policy and Violence Prevention, we are now in a position to monitor and provide training and technical assistance to all sub-grantees. The individual responsible for implementing this monitoring system is William L. Collins.

FINDING NUMBER FIVE:

The department is not reporting or controlling drug forfeiture income.

RECOMMENDATION:

The department should include all program income in its federal financial status reports.

RESPONSE:

A report on seized and forfeited assets is being developed from the grants management system that will reflect forfeiture income and expenses related to DCSI Formula grant funds. This report will be available by July 1, 1993. The agency will use the information from these reports to provide the U.S. Department of Justice with the required data on drug forfeiture income.

RECOMMENDATION:

The department should develop procedures to verify the accuracy of drug forfeiture deposits.

RESPONSE:

The agency does not have the records to verify the accuracy of all drug forfeiture deposits. The State Treasurers Office is responsible for receipting and depositing these proceeds. These funds are deposited into an APID that is outside of this department's jurisdiction, making it very difficult to verify these deposits. In addition, Minn. Stat. 609.5315 Subd. 6 states "the appropriate agency shall provide a written record of each forfeiture incident to the state auditor." The State Auditors office would have a complete list of all forfeitures.

The Office of Drug Policy and Violence Prevention has records of seizures from sub-grantees under the Drug Control and Systems Improvement Formula Grant. Minnesota statutes states how the proceeds from ALL forfeited property are to be distributed. To verify the proceeds of drug forfeiture deposits, the agency would need to request information from all local units of government regarding the detail of their deposits with the State Treasurer on drug forfeitures. We also would need copies of the State Treasurer's deposit records(FIN 8's and supporting documentation). We have no legal authority for these requests and do not have personnel to reconcile support documentation to deposits.

In addition, all of our sub-grantees are required to obtain single audits if they receive more than \$25,000.00 in federal grants. As part of the sub-grantees audit, there should be a review of program income to ensure that the sub-grantee is complying with federal and state regulations. To the best of my knowledge, we have not had a finding that a sub-grantee is not properly distributing the proceeds of forfeited property.

If there are any questions or concerns feel free to contact me.

Sincerely,



Michael S. Jordan
Commissioner
Department of Public Safety

C: Frank Ahrens
Katherine Burke-Moore
William L. Collins