

DEPARTMENT OF PUBLIC SAFETY

PROGRAMS SELECTED FOR FISCAL YEAR

1993 STATEWIDE AUDIT

MAY 1994

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

94-22

DEPARTMENT OF PUBLIC SAFETY

PROGRAMS SELECTED FOR FISCAL YEAR 1993 STATEWIDE AUDIT

Public Release Date: May 13, 1994

No. 94-22

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Deputy registrar excise tax receipts; deputy registrar license fee receipts; prorate license fee receipts; mail issue license fee receipts; and Drug Control and Systems Improvement Formula Grant expenditures.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

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

- The department should verify the accuracy of base values before posting them to the Motor Vehicle System.
- The department should reconcile its computerized accounting records to the actual cash receipts recorded in SWAS.
- Receipt processing duties in the prorate section should be properly separated.
- The Drug Control and Systems Improvement Formula Grant advances and expenditure reimbursements should be reconciled to SWAS.

We found two areas where the department had not complied with finance-related legal provisions:

- The department is not assigning consistent base values to some vehicles.
- The department is not reporting drug forfeiture income for the Drug Control and Systems Improvement Formula Grant.

Contact the Financial Audit Division for additional information.

296-1730



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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 audited selected programs of the Department of Public Safety as part of our Statewide Audit of the State of Minnesota's fiscal year 1993 financial statements and Single Audit federal programs. 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 outlined below and as further discussed in the Introduction.

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 selected financial activities of the department are free of material misstatements. In performing our audit of the selected programs, we considered the internal control structure in order to plan our audit, and we performed tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. Our objective was to provide an opinion on the internal control structure and on overall compliance with finance-related legal provisions.

We emphasize that this has not been a complete financial and compliance audit of all programs within the Department of Public Safety. The work conducted in the department is part of our Statewide Audit 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 the department during fiscal year 1993.

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

- Deputy registrar excise tax receipts;
- Deputy registrar license fee receipts;
- Prorate license fee receipts;
- Mail issue license fee receipts; and
- Drug Control and Systems Improvement Formula Grant expenditures.

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Mr. Michael Jordan, Commissioner
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For these internal control structure categories, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We also assessed control risk and tested and evaluated the design and operating effectiveness of the internal control structure as of June 1993, and other procedures we considered necessary. We believe that our examination provides a reasonable basis for our opinion.

Management Responsibilities

Management of the Department of Public Safety is responsible for establishing and maintaining the internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. 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.

Conclusions

Our audit disclosed the conditions discussed in findings 1 through 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.

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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 none of the reportable conditions are material weaknesses.

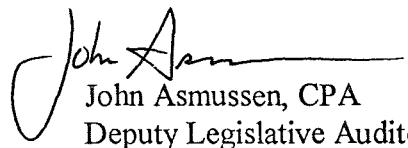
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Public Safety at the exit conference held on March 9, 1994.

The results of tests our indicate that, except for issues discussed in findings 1 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 13, 1994.

We thank the Department of Public Safety staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 14, 1994

Report Signed On: May 10, 1994

Department of Public Safety

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Audit Participation

The following members of 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
Marla Conroy, CPA	Auditor
Christinia Weiss	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff at the exit conference on March 9, 1994:

Richard Carlquist	Deputy Commissioner
Katherine Burke-Moore	Director of Driver and Vehicle Services
Jack Wildes	Assistant Director of Driver and Vehicle Services
Alice Gonzalo	Assistant Director of Driver and Vehicle Services
Marilyn Gaiovnik	Prorate Supervisor
Mike Ryan	Titles and Registration Supervisor
Frank Ahrens	Director of Finance
Dan Boytim	Assistant Director of Finance
Billy Collins	Director of Drug Policy
Marilyn Smith	Accountant
Linda Mehle	Accountant

Department of Public Safety

Introduction

The Department of Public Safety's principal responsibility is to maintain a safe environment for the citizens of Minnesota. To do this, 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. The Department of Public Safety also provides education and public assistance services to Minnesota's citizens. Michael Jordan is the current 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 following table is a summary of the department's excise tax and license fees collected during fiscal year 1993:

Department of Public Safety Excise Tax and License Fees Collected Fiscal Year 1993

Motor Vehicle Excise Tax Receipts:	
Deputy registrar excise tax receipts	\$284,938,907
Other excise tax receipts	<u>11,332,499</u>
Total excise tax receipts:	<u>\$296,271,406</u>
Motor Vehicle License Fees:	
Deputy registrar license fee receipts	\$325,136,388
Prorate license fee receipts	43,549,630
Mail issue license fee receipts	26,115,325
Other license fee receipts	<u>9,853,460</u>
Total license fee receipts:	<u>\$404,654,803</u>

The department's receipts for fiscal year 1993 totaled about \$792,015,000.

The Office of Drug Policy administers the federal Drug Control And Systems Improvement (DCSI) Formula Grant. The DCSI grant agreement requires the state to pass-through approximately 70 percent of these funds to local units of government. Expenditures for this program during fiscal year 1993 were \$7,882,136. Total department expenditures were \$152,238,000.

Source: Statewide Accounting System's Managers Financial Report and the Estimated/Actual Receipts Report as of 8/31/92.

Current Findings and Recommendations

1. PRIOR FINDING NOT RESOLVED: The department is not assigning vehicle base values consistently.

The department is not assigning consistent base values to some 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 they differ, input operators should consult the Official Base Value Supplement to determine which amount is correct. During fiscal year 1993, the department did not install this key system edit or prepare Official Base Value Supplements timely. As a result, data entry operators had no mechanism to verify the accuracy of vehicle base values listed on title applications. During fiscal year 1993, data entry operators added vehicles to the Motor Vehicle System for over nine months without verifying their accuracy.

Delays in publishing the Official Base Value Supplement and installing the Motor Vehicle System edit are diminishing the effectiveness of controls over vehicle base values. We extracted all 1993 vehicles added to the Motor Vehicle System for 25 particular makes and models. We then separated these vehicles into two groups--those entered before the edit was operating and those entered after. Of the vehicles entered after the edit was working, 1.93 percent had base values that differed from the value published in the Official Base Value Supplement. For the vehicles entered before the edit was working 30.08 percent had base values which differed from the official value. We did not consider base values to be inconsistent unless they differed from the Official Base Value Supplement by more than \$500 or five percent. We did not determine the total affect of these inconsistencies on license fee revenue. Also, the department has not determined the affect on license fee revenue.

Department managers told us that difficulties in obtaining pricing information from manufacturers is the primary cause for the delays in publishing the Official Base Value Supplement and installing the computer edit. We feel that the department needs to take additional steps to get this pricing information more timely. Erroneous base values cause inaccurate license fee assessments for vehicles. These inaccurate assessments occur in all future years since base values are a permanent part of a motor vehicle record. Therefore, the department should verify the accuracy of all base values before posting them to vehicle records in the Motor Vehicle System.

Recommendation

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

Department of Public Safety

2. Internal controls over motor vehicle license fee receipts need improvement.

The Department of Public Safety is not verifying the accuracy of its motor vehicle license fee receipts. The department deposits motor vehicle license fees into the State Treasury and records them in the Statewide Accounting System (SWAS). Employees then post these fees to individual customer's accounts in the Motor Vehicle System or the Vehicle Information System for Tax Apportionment. However, the department does not reconcile its deposits to the sum of these amounts posted to individual customer's accounts. As a result, inaccurate or unauthorized amounts posted to customer's accounts could go undetected. Missing or improperly coded deposits could also go undetected under this system. The department could find these and other potential errors by reconciling amounts posted to its computerized accounting records to the actual deposits in SWAS.

Recommendation

- *The department should reconcile its computerized accounting records to the actual cash receipts recorded in SWAS.*

3. Receipt processing duties in the prorate section are not properly separated.

One employee in the prorate section performs incompatible accounting duties. This employee is responsible for counting a portion of the daily receipts and completing a cash count worksheet. The employee also reconciles these receipts to the cash register tape and prepares daily bank deposits. No other employee reviews these bank deposits to attest to their accuracy or completeness. Internal controls are weak whenever duties are concentrated with one employee. To improve controls, a person independent of the receipt processing functions should review and approve all bank deposits.

Recommendation

- *The department should assign an independent person to review and approve bank deposits in the prorate section.*

4. Internal controls over the Drug Control and Systems Improvement (DCSI) Formula Grant accounting records need improvement.

The department implemented a computerized Grants Management System (GMS) to help control its DCSI subgrantees. Internal controls over this system are weak because the department is not taking sufficient steps to verify the accuracy of GMS information. The department could improve controls by reconciling advances and expenditures reimbursements recorded in GMS to the actual payments recorded in the Statewide Accounting System (SWAS).

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GMS records DSCI subgrantee awards, budgets, cash advances, and expenditure reimbursements. The department uses the GMS to prepare reports and compile information for the United States Department of Justice. It also uses GMS to monitor subgrantee cash balances and generate monthly or quarterly payment invoices. To lessen the possibility of reporting and payment errors, the department should reconcile the advances and expenditure reimbursements in GMS to the actual payments in the SWAS.

Recommendation

- *The department should reconcile GMS advances and expenditure reimbursements to the actual disbursements recorded in the SWAS.*

5. PRIOR FINDING NOT RESOLVED: The department is not reporting drug forfeiture income for the Drug Control and Systems Improvement (DCSI) Formula Grant.

The department is not including drug forfeiture income in its Federal Financial Status Reports. The department uses the DCSI Formula Grant to fund 30 narcotic task forces. These task forces confiscate cash and property during drug raids. Proceeds from the sale of seized and forfeited assets are program income to be shared by task forces, prosecuting attorneys, and the state. Task forces submit reports detailing all drug forfeiture income and expenses. However, the department is not compiling this information and reporting it to the Department of Justice. Federal regulations require grantees to report program income in the quarterly financial status reports.

Recommendation

- *The department should report its drug forfeiture income in the Federal Financial Status Reports.*

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STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY

May 6, 1994

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

Dear Mr. Nobles:

On March 31, 1994, 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, 1993.

FINDING NUMBER ONE:

PRIOR FINDING NOT RESOLVED: The department is not assigning vehicle base values consistently.

RECOMMENDATIONS:

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

RESPONSE:

Driver and Vehicle Services' policy is to use the base value from the computer record. The Audit Report's statement that the Official Base Value Supplement is checked if there is a discrepancy is not accurate. When there is a discrepancy between the Deputy Registrar Report and the computer record, the base value on the computer record is assumed to be valid. The owner is either refunded or required to pay more registration tax depending on the situation. The problem occurs when there is no base value on the computer. The reasons for missing base values are accurately stated in the report. In those cases, the Registrar uses the dealer's declaration of the base value as authorized under Minn. Stat. 168.013 subd. 1a. That section of the statute states; "or determined by the registrar if no suggested retail price exists". This refers to whether the suggested retail price exists within the registrar's records or not. Therefore, the registrar is within the letter and the spirit of the statute to determine the base value with the dealer's information.

Driver and Vehicle Services (DVS) realizes that obtaining the base value data on a timely basis is very important. Steps are being taken to speed up both the processes of gathering the information and the updating the computer. A new system is under consideration and access to the base value is a critical factor.

Driver and Vehicle Services is exploring the feasibility of modifying the Motor Vehicle System with a new system edit that would amend the base value amounts that had been manually entered on the motor vehicle records. This system edit would occur when new base value tables are added to the Motor Vehicle System. Therefore, future calculations of motor vehicle taxes would be based on base values from the Motor Vehicle base value tables.

Michael Ryan of DVS is responsible for the implementation.

FINDING NUMBER 2:

Internal controls over motor vehicle license fees need improvement.

RECOMMENDATION:

The department should reconcile its computerized accounting records to actual cash receipts recorded in SWAS.

RESPONSE:

The current Vehicle Information System for Tax Apportionment (VISTA) version 1.0 is being phased out and a new version of the system is scheduled for installation in July of 1994. With this new version, DVS is hopeful that customer's accounts posted to the VISTA system can be reconciled to actual deposits in Statewide Accounting System (SWAS). When the new version of the system is operational, a reconciliation will be made monthly. Marilyn Gaiovnik of DVS is responsible for the implementation.

The division does not reconcile deposits of motor vehicle taxes in SWAS to individual customer's accounts in the Motor Vehicle System. With the new accounting system, Government Financial System (GFS), and anticipated modifications in statewide receipt deposit procedures, entry of receipt deposit data in the accounting system will be timely. Reporting capabilities of the GFS should assist the division in reconciling deposits to the Motor Vehicle Registration Summary By Class of Vehicle Report. GFS is scheduled for implementation on July 1, 1995. Michael Ryan of DVS is responsible for the implementation of DVS reconciliation procedures.

FINDING NUMBER 3:

Receipt processing duties in the prorate section are not properly separated.

RECOMMENDATION:

The department should assign an independent person to review and approve bank deposits in the prorate section.

RESPONSE:

This review process was implemented on March 1, 1994. The review and approval process is the responsibility of Marge Noll of DVS.

FINDING NUMBER 4:

Internal controls over the Drug Control and Systems Improvement(DCSI) Formula Grant accounting records need improvement.

RECOMMENDATION:

The department should reconcile GMS advances and expenditure reimbursement to the actual disbursements recorded in the SWAS.

RESPONSE:

By June of 1993, the Office of Drug Policy and Violence Prevention had entered all grantee data in the Grants Management System (GMS). Since September of 1993, Linda Mehle of the Office of Fiscal & Administrative Services has reconciled GMS advances and expenditure reimbursements to actual disbursements recorded in the SWAS.

FINDING NUMBER 5:

PRIOR FINDING NOT RESOLVED: The department is not reporting or controlling drug forfeiture income for the Drug Control and systems Improvement (DCSI) Formula Grant.

RECOMMENDATION:

The department should report its drug forfeiture income in the Federal financial Status Reports.

RESPONSE:

The Multi Jurisdictional Narcotics Task Forces are funded on a calendar year. For calendar year 1993, due to development of forfeiture income criteria with the Bureau of Justice Assistance, only one year end report was submitted for each Task Force. In calendar year 1994, all Task Forces are required to report quarterly on forfeiture income. Billy Collins of the Office of Drug Policy and Violence Prevention was responsible for implementation.

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

Sincerely,

Michael Jordan DM

CC: Deborah Montgomery
Mary Ellison
Frank Ahrens
Katherine Burke-Moore
William L. Collins
Marilyn Gaiovnik
Michael Ryan

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