

Department of Public Safety

Financial Audit

For the Year Ended June 30, 1994

May 1995

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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, 1994

Public Release Date: May 12, 1995

No. 95-21

Objectives:

- Review internal control structure for the following programs: Deputy registrar excise tax and license fee receipts; prorate excise tax and license fee receipts; mail issue license fee receipts; cashier excise tax and license fee receipts; and disaster assistance grant expenditures.
- Test compliance with certain finance-related provisions.

Conclusions:

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

- The department is not assigning vehicle base values consistently.
- Internal controls over computerized motor vehicle records need improvement.
- Internal controls over motor vehicle license fee receipts need improvement.
- Internal controls over prorate excise tax receipts need improvement.

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

- The department does not assign vehicle base values according to Minnesota statutes.
- The department inappropriately paid an invoice with Trunk Highway and Highway User Tax Distribution funds.

Contact the Financial Audit Division for additional information.
296-1235



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Members of the Legislative Audit Commission

Mr. Michael Jordan, Commissioner
Department of Public Safety

Audit Scope

We have completed a financial related audit of selected programs of the Department of Public Safety for the year ended June 30, 1994. We emphasize that this has not been a complete audit of all programs within the Department of Public Safety, and that our audit was limited to only that portion of the financial operations as outlined below and as further discussed in the Introduction. The work conducted in the department is part of our Statewide Audit of the State of Minnesota's fiscal year 1994 financial statements and Single Audit (federal compliance 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 1994.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit of the selected programs, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

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 excise tax receipts;
- Prorate license fee receipts;
- Mail issue license fee receipts;
- Cashier excise tax receipts;
- Cashier license fee receipts; and
- Disaster assistance grant expenditures.

For 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.

We also reviewed the payment of an invoice for investigative services from the Trunk Highway and Highway User Tax Distribution Funds.

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 internal control 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 2-5 involving the internal control structure of the Department of Public Safety. We consider these conditions to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. A reportable condition involves matters coming to our attention that relate 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.

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 noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

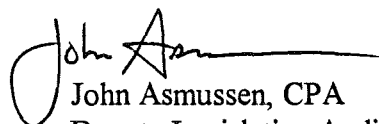
The results of tests indicate that, except for issues discussed in findings 1 and 6, with respect to the items tested, the Department of Public Safety complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Public Safety had not complied, in all material respects, with those provisions.

We also noted other conditions involving the internal control structure and its operations, which we reported to management of the Department of Public Safety at the exit conference held on April 6, 1995.

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 12, 1995.

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: February 17, 1995

Report Signed On: May 8, 1995

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
Warren Bartz, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Joan Haskin, CPA	Auditor
Lori Kloos	Auditor
Trent Usitalo	Intern

Exit Conference

We discussed the results of the audit at the exit conference held on April 6, 1995, with the following staff from the Department of Public Safety:

Richard Carlquist	Deputy Commissioner
Deborah Montgomery	Assistant Commissioner
Frank Ahrens	Director, Office of Fiscal and Administrative Services
Katherine Burke-Moore	Director, Division of Driver and Vehicle Services
James Franklin	Director, Division of Emergency Management
Jean Ryan	Prorate Office Supervisor
Jon Huspek	Accounting Officer
Debra Ambright	Accounting Officer

Introduction

The Department of Public Safety's mission is to protect people and property in Minnesota through prevention, regulation, enforcement, information, and service. 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 that are members of interstate agreements. A summary of the department's excise tax and license fees collected during fiscal year 1994 is shown in Table 1.

Table 1
Motor Vehicle Excise Tax Receipts and License Fees
Fiscal Year 1994

Motor Vehicle Excise Tax Receipts:	
Deputy registrar excise tax receipts	\$244,344,865
Cashier excise tax receipts	8,872,527
Prorate excise tax receipts	3,481,247
Other excise tax receipts	347,770
Total excise tax receipts:	<u>\$257,046,409</u>
Motor Vehicle License Fee Receipts:	
Deputy registrar license fee receipts	\$333,983,055
Prorate license fee receipts	49,360,081
Mail issue license fee receipts	25,426,467
Cashier license fee receipts	8,372,930
Other license fee receipts	916,048
Total license fee receipts:	<u>\$418,058,581</u>

Source: Statewide Accounting Receipts Summary and Estimated/Actual Receipts Report as of June 30, 1994.

Including other revenue sources, the department's receipts for fiscal year 1994 totaled \$877,188,750.

The Division of Emergency Management (DEM) administers federal disaster assistance programs as provided under provisions of federal law and regulation. The Federal Emergency Management Agency (FEMA) makes grants to the state, which then initiates subgrants to eligible individuals and families, state agencies, counties, local governments, and certain private, nonprofit organizations. DEM's expenditures, including state match, for this program during fiscal year 1994 were \$27,971,984, as shown in the Minnesota Financial and Compliance Report on Federally Assisted Programs.

Current Findings and Recommendations

1. The department does not assign vehicle base values according to Minnesota statutes.

The Driver and Vehicle Services Division is not assigning base values for collecting license fee registration taxes according to Minn. Stat. Section 168.013. It assigns a single base value to all vehicle models sharing a common vehicle identification number (VIN) but having separate manufacturer's suggested retail prices (MSRP). It is the division's policy to assign the lowest MSRP of those models sharing the same VIN. A portion of the VIN describes each vehicle model. For most vehicles, there is a distinct MSRP for each vehicle with a different VIN. However, some manufacturers assign the same VIN to two or more models. Vehicles with the same VIN can have different MSRPs. The practice of assigning a single base value for different models does not comply with Minn. Stat. Section 168.013, Subd. 1a(b) which defines a base value as:

The manufacturer's suggested retail price of the vehicle including destination charges as reflected on the price listing affixed to the vehicle...or otherwise suggested by the manufacturer or determined by the registrar if no suggested retail price exists, and shall not include the cost of each accessory or item of optional equipment separately added to the vehicle and the suggested retail price.

An Attorney General opinion dated August 18, 1994, states that the division's practice of using the lowest MSRP conflicts with Minn. Stat. Section 168.013, Subd. 1a(b). The opinion states that the base value is the MSRP listed on the window sticker, and each of the MSRPs for the same VIN represents different base values for registration tax purposes. The department introduced legislation in the 1995 Legislature to change the current requirements.

The Motor Vehicle System uses the base value to compute the annual license fee registration tax. Assigning the lowest base value to all vehicle models sharing a VIN reduces the state's license fee revenue. Using the incorrect base value also reduces future revenues since base values are a permanent part of a motor vehicle record.

Recommendation

- *The Driver and Vehicle Services Division should tax vehicles in accordance with Minn. Stat. Section 168.013, Subd. 1a, or the provisions as revised by the 1995 legislation.*

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2. 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. If there is no base value in the system, input operators consult the *Official Base Value Supplement* to determine the correct amount to enter into the system.

During fiscal year 1994, the department did not install the key system edit until December 1993, or issue official base value supplements until October 1993. However, the department prepared base value worksheets as it received information from the vehicle manufacturers. These worksheets contained the necessary information to assign accurate vehicle base values for license fee assessments. The data entry operators did not receive these worksheets. As a result, data entry operators had no mechanism for several months to verify the accuracy of vehicle base values listed on title applications. In order to maintain effective controls over base values, data entry operators need access to accurate base value information. Without this information, the risk of assigning inaccurate base values to some vehicles increases. 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 the motor vehicle record. The department has been aware of this problem since our last audit, but has not resolved it.

Recommendation

- *The department should verify the accuracy of base values before posting them to the Motor Vehicle System. Data entry operators should have access to necessary information on a more timely basis.*

3. Internal controls over computerized motor vehicle records need improvement.

The Department of Public Safety does not save detailed electronic transactions after updating motor vehicle records. The department uses a database management system to maintain most motor vehicle records. Employees enter these transactions using computer terminals or an electronic scanner. The transactions can change or delete existing records in the database or add new ones. The department deletes these detailed transactions shortly after updating the database. Without these transactions, it is extremely difficult to correct errors or diagnose problems in the future.

Computer systems should be designed with controls to prevent or detect errors before updating records. In reality, though, it is virtually impossible to foresee every type of error that might occur in the future. Therefore, transaction history files are an important internal control in a computerized environment.

We found that the department's computer program, which generates electronic deposit slips, was not functioning properly. As a result, revenue dedicated for specific funds was credited to the wrong accounts. The department cannot determine the economic impact of this program error, because it did not save detailed transactions. In fact, the department had difficulty diagnosing when the problem first began or if it was ever fixed. The department needs to start saving transactions history so that it can more effectively diagnose and correct errors in the future.

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Recommendations

- *The department should save transaction history files after updating its database.*
- *The department should diagnose the cause of the inaccurate deposit slips and quantify the economic impact of the errors.*

4. PRIOR FINDING NOT RESOLVED: 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 (SWA) System. Employees then post these fees to individual customer's accounts in the Motor Vehicle System or the Vehicle Information System for Tax Apportionment (VISTA). However, the department does not reconcile its deposits to the sum of the 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 the SWA System.

Recommendation

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

5. Internal controls over prorated excise tax receipts need improvement.

Internal controls over prorated excise tax receipts are not operating as intended by the Department of Public Safety. Prorate registrars throughout the state and DPS staff are responsible for verifying the accuracy of the excise tax collected from trucking firms. Trucking firms pay excise tax based on a formula containing three factors:

1. The purchase price of the vehicle;
2. Minnesota mileage percentage (the percentage of miles driven in Minnesota as compared to the total miles driven by the firm); and
3. The excise tax rate which is currently 6.5 percent.

Trucking firms submit mileage information to DPS on a yearly basis, and DPS enters it on the department computer system. Prorate registrars and DPS staff are required to verify the accuracy of the Minnesota mileage percentage reported by the firms when paying excise tax on trucks purchased by the firm. They are also required to ensure the purchase price of the truck seems reasonable based either on the invoice from the dealer showing the purchase price or information contained in the *NADA Commercial Truck and Trailer Blue Book*.

Department of Public Safety

We tested 20 prorated excise tax transactions and found errors in six of the transactions. In four of the transactions an incorrect mileage percentage was used. There were two instances in which an incorrect purchase price was used, and one instance with a mathematical error. Although none of the errors individually were material, the fact that there was an error rate of 30 percent within our sample indicates that procedures are not being followed. In order to maintain effective internal controls over prorated excise tax collections, DPS needs to take steps to ensure that procedures are in fact being followed. Some possible solutions could include training of prorated registrars and DPS staff, closer supervision of the individuals responsible for processing the prorated excise tax transactions, or periodic comparison of error rates against a preestablished standard.

Recommendation

- *DPS should take the steps necessary to ensure that prorated excise tax transactions are accurately processed.*

6. The department inappropriately paid an invoice with Trunk Highway and Highway User Tax Distribution Funds.

On July 15, 1991, the Department of Public Safety inappropriately paid an invoice, for investigative services totaling \$6,349.93, with Trunk Highway money. The department paid the invoice from an account subject to the department's administrative cost allocation plan. After considering the cost allocation formula, the result was that the General Fund and the Highway User Tax Distribution Fund reimbursed the Trunk Highway Fund \$1,682.73 and \$717.54, respectively, for this invoice. The Trunk Highway Fund paid the remainder or \$3,949.66 of the invoice. Although the administrative cost reimbursement formula provides an effective method of distributing costs, it also requires the department to determine whether an expenditure relates to the authorized purposes of the Trunk Highway and Highway User Funds. The services provided under the investigative contract did not relate, either directly or indirectly, to the authorized purposes of the Trunk Highway or Highway User Tax Distribution Funds. The Department of Public Safety should have paid the total invoice from the General Fund.

The Constitution of the State of Minnesota established the Trunk Highway and Highway User Tax Distribution Funds. The Constitution specifies the purpose of each fund to include construction, improvements, and maintenance of a trunk highway system. The Highway User Tax Distribution Fund is for highway purposes only. No correlation between the authorized uses as provided in the constitution and the investigative expenditure exists.

Recommendations

- *The Department of Public Safety should reimburse the Trunk Highway Fund and the Highway User Tax Distribution Fund with General Fund appropriations, in the amount of \$3,949.66 and \$717.54, respectively. These amounts represent the portion of the \$6,349.93 inappropriately paid with Trunk Highway and Highway User money.*
- *The department should ensure future administrative costs, subject to the cost allocation formula, represent authorized expenditures of the Trunk Highway and Highway User Tax Distribution Funds.*

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STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY

April 21, 1995

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

Dear Mr. Nobles:

At the April 6, 1995 audit exit conference, we were provided 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, 1994. Katherine Burke Moore will be responsible for the implementation of our response to findings number one through five. Frank Ahrens will be responsible for the implementation of our response to finding number six.

FINDING NUMBER ONE:

The department does not assign vehicle base values according to Minnesota Statutes.

RECOMMENDATIONS:

The Driver and Vehicle Services Division should tax vehicles in accordance with Minn. Stat. Section 168.013, Subd. 1a, or the provisions as revised by the 1995 legislation.

RESPONSE:

The Legislative Auditor recommends that DVS either follow the direction of statute or the provisions of M.S. 168.013, as revised by the 1995 Legislature. We are confident that the 1995 Legislature will change the outdated provisions of this statute, thereby bringing our procedures into compliance.

In 1971 Minnesota legislators decided to move from vehicle weight to vehicle value as the basis for calculating an owner's registration tax liability. The new law incorporated a federal requirement that new cars held on dealer lots display window stickers. Further, this law suggested that the window sticker should be used to determine the manufacturer's suggested retail price.

These window stickers never were administratively practical as a basis for setting the tax value on a passenger automobile. For many years, DVS has employed a computer program based on direct reporting by motor vehicle manufacturers to build the Minnesota tax base. Until recently this system was efficient, accurate and fulfilled statutory mandates. However, in the last few years a few manufacturers on a small number of vehicle models have changed their reporting practices. This change created the problem we are in the process of correcting.

DVS has drafted legislation that will bring our procedures into complete conformity. The proposed change will not have an effect on revenue collections and is the most effective way to administer the program. Our recommended amendment to M.S. 168.013 has moved through committees in both houses of the Legislature with no opposition. When this bill is signed into law, DVS will be in complete compliance with statutory directions and will have satisfied the recommendation of the Legislative Auditor's report.

FINDING NUMBER TWO:

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

RECOMMENDATION:

The department should verify the accuracy of base values before posting them to the Motor Vehicle System. Data entry operators should have access to necessary information on a more timely basis.

RESPONSE:

The main problem seems to be the speed with which the Title and Registration Section receives the base value guides and updates. To alleviate this, the division will initialize a bulletin board on e-mail and those wishing the updates will track the board. Dave Anderson will, then, post any changes or new entries to the bulletin board. The process will, then, forward that information to the areas in need.

FINDING NUMBER THREE:

Internal controls over computerized motor vehicle records need improvement.

RECOMMENDATION:

The department should save transaction history files after updating its database.

The department should diagnose the cause of the inaccurate deposit slips and quantify the economic impact if the errors.

RESPONSE:

The department saves paper reports of the transaction files for a period of five years. The department will start saving transaction history files electronically when necessary programming can be completed. A program will be developed that will capture this data and archive these files for future reference.

The department is looking into the cause of the inaccurate deposit slips. We will attempt to identify the economic impact of the errors.

The Department will institute a more thorough acceptance procedure for programming changes that affect the accounting screens and deposit slip production. The Information and Records Management Section will notify the Cashiers' Unit whenever a programming change is made. The Cashiers' Unit will verify proper depositing of all fees and taxes for a set period after the change. In addition, the spot-checking, which was instituted after an error described in the Audit Report was found, will continue.

FINDING NUMBER FOUR:

PRIOR FINDING NOT RESOLVED: Internal controls over motor vehicle license fee receipts need improvement.

RECOMMENDATION:

The department should reconcile its computerized accounting records to the actual cash receipts recorded in the swa System.

RESPONSE:

The current computer system makes it impossible to comply with this finding. The Prorate staff has continued to work with the VISTA staff, outlining the needs. However, VISTA is not able to do this programming.

There was a hope that, with the new VISTA application, this would be solved. However, VISTA 2.0 has not lived up to expectations. Currently VISTA is on a three-month hold for any programming.

Minnesota staff continues to explore new procedures to solve this problem. It appears the final solution is to get a new computer system. Prorate staff is working through a federal project and other sources to find funding needed for a new system.

The division does not reconcile deposits of motor vehicle taxes in SWA to individual customer's accounts in the Motor Vehicle System. With the new accounting system, Minnesota Accounting Procurement System (MAPS), and anticipated modifications in statewide receipt deposit procedures, entry of receipt deposit data in the accounting system will be timely. Reporting capabilities of MAPS should assist the division in reconciling deposits to the Motor Vehicle Registration Summary By Class of Vehicle Report. MAPS is scheduled for implementation of July 1, 1995.

FINDING NUMBER FIVE:

Internal controls over prorate excise tax receipts need improvement.

RECOMMENDATION:

DPS should take the steps necessary to ensure that prorate excise tax transactions are accurately processed.

RESPONSE:

To increase the accuracy of sales tax collection for interstate registered trucks, the Prorate Office will:

- 1) Change the form used to include more detailed instructions. Revise detailed instruction procedure for the Prorate staff and deputy registrars for proper tax computation.
- 2) Produce a report showing each Minnesota carrier's mileage percentage. This report will be given to each deputy and Prorate staff.
- 3) Establish review standards for the staff in recomputing the sales tax computation for each title transaction.
- 4) Instruct the staff that for new trucks to compare the invoice price if available. It would be impossible for the office to make a determination of the value of each truck. The nature of trucking is such that vehicles have very high mileage and often exchange engines several times. To have our employees assessing values or even trying to compare with the book, I feel, would be an exercise in futility.

FINDING NUMBER SIX:

The department inappropriately paid an invoice with Trunk Highway and Highway User Tax Distribution Funds.

RECOMMENDATIONS:

The department of Public Safety should reimburse the Trunk Highway Fund and the Highway User Tax Distribution Fund with General Fund appropriations, in the amount of \$3,949.66 and \$717.54, respectively. These amounts represent the portion of the \$6,349.93 inappropriately paid with Trunk Highway and Highway User money.

The department should ensure future administrative costs, subject to the cost allocation formula, represent authorized expenditures of the Trunk Highway and Highway User Tax Distribution Funds.

RESPONSE:

The department will reimburse the Trunk Highway Fund and the Highway User Tax Distribution Fund in the amounts recommended.

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

Sincerely,



Michael Jordan
Commissioner, Department of Public Safety

CC: Deborah Montgomery
Frank Ahrens
Katherine Burke Moore
Marilyn Gaiovnik
Michael Ryan

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