

Department of Public Safety

Selected Programs

Fiscal Year 1996 Statewide Audit

January 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-1



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Donald E. Davis, Commissioner
Department of Public Safety

We have audited selected areas of the Department of Public Safety for the fiscal year ended June 30, 1996, as further explained in Chapter 1. The work conducted in the department is part of our Statewide Audit of the state of Minnesota's fiscal year 1996 financial statements. The Comprehensive Annual Financial Report for the year ended June 30, 1996, includes our report, issued thereon dated December 2, 1996. Therefore, we emphasize that this has not been a complete audit of the Department of Public Safety. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Department of Public Safety complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Department of Public Safety is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the 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 3, 1997.

A handwritten signature in black ink, appearing to read "James R. Nobles".

James R. Nobles
Legislative Auditor

A handwritten signature in black ink, appearing to read "John Asmussen".

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: November 1, 1996

Report Signed On: December 30, 1996

SUMMARY

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Department of Public Safety Selected Programs Fiscal Year 1996 Statewide Audit

Public Release Date: January 3, 1997

No. 97-1

Background

The Department of Public Safety 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's net revenues, as shown on the state's accounting system for fiscal year 1996, totaled \$928 million. Deputy registrars (170 statewide offices) collected approximately 83 percent of these receipts. Donald Davis is the current commissioner of the department. Commissioner Davis was appointed to his position on April 22, 1996, when he replaced the prior commissioner, Michael Jordon.

Selected Audit Areas and Conclusions

The audit focused on selected programs administered by the Department of Public Safety for the year ended June 30, 1996. Our audit scope was limited to those areas material to the state of Minnesota's Comprehensive Annual Financial Report for fiscal year 1996. The areas audited included the motor vehicle sales tax system (\$380.7 million) and the registration tax system (\$449.7 million).

We concluded that the Department of Public Safety's sales tax and registration tax revenues are presented fairly on the state of Minnesota's Comprehensive Annual Financial Report for fiscal year 1996. We also concluded that the Department of Public Safety complied with material state laws and regulations related to these revenue systems.

We found that the internal controls over these revenues were generally adequate, however, the department needs to work with the Department of Finance and the Office of the State Treasurer to reduce the number of days that deputy registrars' receipts remain in state depositories before being transferred into the State Treasury. In addition, as first noted in prior audits, the department still needs to improve computer access controls and retain electronic data entered onto the Motor Vehicle System. Finally, the department has not completed a disaster recovery plan.

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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 |
| Claudia Gudvangen, CPA | Senior Audit Manager |
| Renee Redmer, LPA | Audit Manager |
| Tony Toscano | Auditor-in-Charge |
| Mark Mathison, CPA | Audit Staff |
| Tammy Schmidt | Audit Staff |

Exit Conference

We discussed the results of the audit with the following Department of Public Safety staff on December 17, 1996:

| | |
|-----------------------|--|
| Donald Davis | Commissioner |
| Deborah Montgomery | Assistant Commissioner |
| Katherine Burke Moore | Director, Driver and Vehicle Services |
| Frank Ahrens | Director, Fiscal and Administrative Services |
| Jack Livingston | Chief Information Officer |
| Daniel Boytim | Supervisor, Accounting and Budget |

Department of Public Safety

Chapter 1. Introduction

The Department of Public Safety 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 also provides education and public assistance services to Minnesota's citizens. The current commissioner, Donald Davis, replaced Michael Jordan on April 22, 1996.

The Driver and Vehicle Services Division collects sales taxes on vehicle sales and distributes these receipts to the state's General and Local Government Trust Funds. Driver and Vehicle Services also collects vehicle registration taxes and deposits these fees in the Highway User Tax Distribution Fund, which further distributes the proceeds to other fund types for expenditure. Deputy registrars located throughout the state collect sales and registration taxes on behalf of the department. The Department of Public Safety's net revenues, as shown on the state's accounting system for fiscal year 1996, totaled \$927.8 million. Deputy registrars (170 statewide offices) collected approximately 83 percent of these receipts. Our 1996 audit scope focused on selected revenues of the department as shown in Table 1-1. These financial activities were material to the state's financial statements.

Table 1-1
Selected Financial Activities
Year Ended June 30, 1996

| | |
|--|---------------|
| Motor Vehicle Sales Tax Net Revenue | \$380,691,801 |
| Motor Vehicle Registration Tax Net Revenue | \$449,719,231 |

Source: Minnesota Accounting and Procurement System.

The primary objective of the Statewide Audit is to render an opinion on the state of Minnesota's financial statements included in its Comprehensive Annual Financial Report for fiscal year 1996. This includes whether the financial statements of the state present fairly its financial position, results of operations, and changes in cash flow in conformity with generally accepted accounting principles. As part of our work, we are required to gain an understanding of material internal control structures and ascertain whether the state complied with laws and regulations that may have a material effect on its financial statements.

To address this objective, we interviewed key department employees, reviewed applicable policies and procedures, tested representative samples of financial transactions, and performed various analytical analyses of the financial data.

Our work in the Department of Public Safety is completed as part of our audit to express an overall opinion of the state's fiscal year 1996 financial statements. The Comprehensive Annual Financial Report for the year ended June 30, 1996, includes our opinion, issued thereon dated

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December 2, 1996. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1996, will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1997.

In addition to preparing those statewide reports, we developed this report to summarize any audit findings and recommendations pertaining to the Department of Public Safety. In Chapter 2, we discuss our findings related to motor vehicle sales and registration taxes.

Chapter 2. Motor Vehicle Sales and Registration Taxes

Chapter Conclusions

The Department of Public Safety collects sales and registration tax from the owners of motor vehicles in the state. The department accurately accounted for and reported net motor vehicle sales tax revenues of \$380.7 million, and net motor vehicle registration tax revenues of \$449.7 million for fiscal year 1996. Internal controls over these revenues were generally adequate, with the exception of the issues noted below. The department materially complied with finance-related legal provisions.

The department needs to improve its deposit process of deputy registrars' receipts to ensure more timely cash sweeps by the State Treasurer. Additionally, the department has not resolved prior audit issues related to its information systems. Some department employees continue to have more security clearance to critical Motor Vehicle System computer resources and data than necessary. Also, the department has not yet completed a disaster recovery plan. Finally, the Motor Vehicle System did not retain a record of detailed transactions, hindering the department's ability to reconcile motor vehicle tax collections to the deposits reported on the Minnesota Accounting and Procurement System (MAPS).

The Department of Public Safety Driver and Vehicle Services Division administers both motor vehicle sales and registration taxes. Minn. Stat. Section 297B governs the sales tax on motor vehicles, while Minn. Stat. Section 168 governs motor vehicle registration and taxation. The Driver and Vehicle Services Division oversees approximately 170 deputy registrars that collect these taxes. The division also collects taxes at its St. Paul office and through mail issue services. In addition, the division is responsible for the Prorate Section, which collects taxes on behalf of the International Registration Plan (IRP). This section receives sales and registration taxes from interstate carriers located within the state. On the basis of reported miles traveled in each state participating in the IRP, the Prorate Section allocates the tax amounts to the applicable states. It then forwards those receipts due to other states and retains the Minnesota portion. In return, other states or jurisdictions that participate in the IRP collect taxes from their local interstate carriers and send Minnesota its prorated portion, based on the miles the carriers traveled. The Prorate Section is responsible for collecting the receipts from the other jurisdictions.

For fiscal year 1996, the department reported net sales tax revenues of \$380.7 million and registration tax revenues of \$449.7 million, as reported on the state's Minnesota Accounting and Procurement System. The department transferred a portion of the sales tax revenue,

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\$117 million, from the General Fund into the Local Government Trust Fund, as mandated under Minn. Stat. Section 297B.09. The registration tax revenues are net of \$24 million received by the Prorate Section from local carriers, and forwarded to the applicable states, and \$13 million received by the Prorate Section from other jurisdictions.

Audit Scope and Objectives

Our audit objectives were to gain an understanding of the internal control structure and ascertain whether the department properly collected and deposited registration and sales taxes into the State Treasury. In addition, we determined if the department complied with the material state laws and regulations governing the collection of these receipts.

Audit Procedures and Results

We conducted interviews with key personnel to gain an understanding of the department's process for collecting, depositing, and reporting tax revenues. We inquired as to the department's resolutions of prior audit findings. On a sample basis, we tested sales tax and registration tax transactions processed by the deputy registrars, department cashiers, and by the Prorate Section. We conducted tests to ensure that the department properly transferred sales tax revenue from the General Fund to the Local Government Trust Fund, as mandated under Minn. Stat. Section 297B.09. In addition, we reviewed security access of employees using the Prorate Section's independent computer system. Finally, we performed various analytical reviews to test data integrity and the reasonableness of reported tax revenues.

We found the department's internal control structure to be generally adequate, with the exception of the items discussed in Findings 1 through 4. We determined that the department properly collected and deposited \$380.7 million of net motor vehicle sales tax and \$449.7 million of net registration tax. We also determined that the department adequately calculated and collected sales and registration tax, in accordance with the provisions of Minn. Stat. Section 168.013 and Minn. Stat. Section. 297B.02.

Findings 2 through 4, pertaining to the department's information systems, were noted during our 1995 Statewide Audit. An effect of Finding 4, that of hindering the reconciliation of the Motor Vehicle System to cash deposits, has been noted in many prior audits. The department has stated that they lack programmers and funding to address these issues. The department indicated that it would be seeking funding to hire additional programmers and make changes to the system. The department requested and obtained an additional \$884,000 in fiscal year 1997 funding during the 1996 Legislative Session to address these issues. Currently the department is still trying to hire additional programmers to help address the prior audit concerns.

1. Deputy registrar deposits were not invested timely.

The process used to transfer deputy registrar receipts from state depositories to the State Treasurer results in lost revenue to the state. Our Statewide Audit of the Department of Public Safety, the Office of the State Treasurer, and the Department of Finance revealed unnecessary delays in the collecting of cash from deputy registrars. This issue is also being addressed in the audit reports for the State Treasurer and the Department of Finance. Deputy registrars deposited

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their receipts into local depositories of the state and sent deposit forms to the State Treasurer. The State Treasurer sent these deposit forms to the Department of Finance to be entered into the Minnesota Accounting and Procurement System (MAPS). After the Department of Finance entered the deposits into MAPS, the State Treasurer "swept" the cash from the local depository accounts into the State Treasury account.

Deputy registrars accounted for 83 percent of the Department of Public Safety's revenue collections, or approximately \$770 million for fiscal year 1996. We determined that the State Treasurer did not receive the cash until approximately 4 - 12 days after the deputy registrars made their deposits into local depositories. As a result, the State Treasurer was unable to timely invest about \$2.2 million daily resulting in an estimated loss of \$800,000 in investment income. We believe that with available technology, the three agencies should be able to transfer deputy registrar receipts to interest bearing accounts in a more timely manner.

Recommendation

- *The Department of Public Safety should work with the Department of Finance and the Office of the State Treasurer in developing a process that enables revenue collected by deputy registrars to be received by the State Treasurer in a more timely manner.*

2. PRIOR FINDING NOT RESOLVED: Some computer programmers have more clearance than they need to fulfill their job responsibilities.

The Department of Public Safety designed a special security group for its computer programmers. This special group had clearance to run every on-line transaction in the Motor Vehicle System. The department also gave its programmers unfettered and continuous access to all Motor Vehicle System data. We do not feel that this level of access is appropriate or necessary. In fact, it exposes important and sensitive data to an unnecessary risk of loss or misuse.

Computer programmers do not typically need access to actual production data or resources. Rather, they work with test data and resources in a special test environment. On some occasions, programmers need access to production data or resources to perform maintenance functions. However, these occasions are rare and do not merit giving the programmers continuous and unrestricted access. We feel that it would be more appropriate to only give programmers the access they need to perform their normal job duties. The department could then control all other special access requests on a case-by-case basis.

Recommendation

- *The Department of Public Safety should only give computer programmers the clearance they need to perform their normal job duties.*

3. PRIOR FINDING NOT RESOLVED: The Department of Public Safety does not have a disaster recovery plan.

The Department of Public Safety does not have any written disaster recovery procedures. Therefore, should a disaster occur, the department may have difficulty recovering some critical business functions.

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A disaster recovery plan provides a road map to recover critical business functions within an acceptable time period. Disaster recovery plans do more than provide a strategy to restore computer operations. They also address other needs that may occur in a time of crisis, such as personnel, facilities, and supplies. It is important to periodically test and maintain disaster recovery plans.

The Department of Administration's Intertech Division has a disaster recovery plan for the state's central computer facility. The Intertech Division periodically tests this plan by restoring mainframe computing capabilities at a remote location. However, the Department of Public Safety has not participated in these tests. Therefore, the department may have difficulty recovering its computer systems that run on the state's central mainframes. Other computer systems located at the Department of Public Safety may also be difficult to recover, due to the lack of back-up systems.

Recommendation

- *The Department of Public Safety should perform disaster recovery planning for its critical business functions.*

4. PRIOR FINDING PARTIALLY RESOLVED. Internal controls over computerized motor vehicle records need improvement.

The Department of Public Safety did not retain 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 detect or correct errors or diagnose problems in the future.

The lack of detailed history hindered the department's ability to reconcile postings of tax fees on the Motor Vehicle System to actual revenue reported on the state's accounting system. As a result, inaccurate or unauthorized amounts posted to customers' accounts could go undetected. Missing or improperly coded deposits could also go undetected under this system.

Computer systems should be designed with sufficient audit trails and 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. Therefore, transaction history files and system reconciliations are an important internal control in a computerized environment.

Recommendation

- *The department should save transaction history files after updating its database, and reconcile its computerized accounting records to the actual cash receipts deposited in the State Treasury.*

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STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY

December 27, 1996

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

Dear Mr. Nobles:

At the December 17, 1996 audit exit conference, we reviewed the Department of Public Safety's preliminary audit report. Renee Redmer had requested that 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 our response to your preliminary audit report for the Department of Public Safety for the fiscal year ended June 30, 1996. Frank Ahrens and Katherine Burke Moore will be responsible for the implementation of our response to finding number one. Katherine Burke Moore will also be responsible for the implementation of our response to finding number two. Jack Livingston will be responsible for the implementation of our response to findings number three and four.

FINDING NUMBER ONE:

Deputy registrar deposits were not invested timely.

RECOMMENDATIONS:

The Department of Public Safety should work with the Department of Finance and the Office of the State Treasurer in developing a process that enables revenue collected by deputy registrars to be received by the State Treasurer in a more timely manner.

RESPONSE:

The Department of Public Safety through the Office of Fiscal and Administrative Services and the Driver and Vehicle Services Division(DVS) will work with the State Treasurer and the Department of Finance in developing a process that will enable transactions related to the revenues collected by the deputy registrars to be posted to the State's accounting system on a more timely basis.

FINDING NUMBER TWO:

PRIOR FINDING NOT RESOLVED: Some computer programmers have more clearance than they need to fulfill

their job responsibilities.

RECOMMENDATION:

The Department of Public Safety should only give computer programmers the clearance they need to perform their normal job duties.

RESPONSE:

At this time, only Intertech staff has security certification required to change the access to Motor Vehicle System for programmers. Due to the constant need for programmers to be working in Motor Vehicle System, it has not been practical to limit our programmers' access.

Two managers from Driver and Vehicle Services' Record and Information Management Section are scheduled to receive AFC2 training through Intertech, which will result in security certification for both managers. This will allow the Department to limit access for programmers and will fully resolve this finding.

FINDING NUMBER THREE:

The Department of Public Safety does not have a disaster recovery plan.

RECOMMENDATION:

The Department of Public Safety should perform disaster recovery planning for its critical business functions.

RESPONSE:

We are currently working on the creation of a Disaster Recovery Plan that will encompass all technical systems and areas of the Department. Our progress in this area has been hindered by a delay in the hiring of additional computer programmers.

FINDING NUMBER FOUR:

PRIOR FINDING PARTIALLY RESOLVED. Internal controls over computerized motor vehicle records need improvement.

RECOMMENDATION:

The department should save transaction history files after updating its database, and reconcile its computerized accounting records to the actual cash receipts deposited in the State Treasury.

RESPONSE:

A work order to program the motor vehicle records system to maintain motor vehicle transactions is on the programming priorities list of DVS and the Office of Technical Support Systems. The department will start saving transaction history files electronically when necessary programming is completed. A program will be developed that will capture this data and archive these files for future reference. Our plans are to have the programming project completed by June, 1997. Our plans are based on the assumption that we are able to hire new computer programmers by January, 1997.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "D. Davis", followed by the printed text "DEPUTY for".

Donald E. Davis
Commissioner, Department of Public Safety

CC: Deborah Montgomery
Frank Ahrens
Jack Livingston
Katherine Burke Moore

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