

Department of Public Safety

Selected Programs

Fiscal Year 1997 Statewide Audit

February 1998

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

98-10



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, 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, 1997, as further explained in Chapter 1. The work conducted in the department was part of our Statewide Audit of the state of Minnesota's fiscal year 1997 financial statements. The Comprehensive Annual Financial Report for the year ended June 30, 1997, includes our report, issued thereon dated December 8, 1997. 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 February 27, 1998.

James R. Nobles
Legislative Auditor

Claudia Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 12, 1997

Report Signed On: February 19, 1998

SUMMARY

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Department of Public Safety

Selected Programs Fiscal Year 1997 Statewide Audit

Public Release Date: February 27, 1998

No. 98-10

Background

The Department of Public Safety administers and enforces laws relating to drivers, vehicles, traffic, liquor sales, gambling, natural and man-made disasters, criminal activities, and fire risks. The Department of Public Safety's net revenues and expenditures, as shown on the state's accounting system for fiscal year 1997, totaled \$1 billion and \$234 million, respectively. The department's current commissioner, Donald Davis, was appointed on April 22, 1996.

Selected Audit Areas and Conclusions

The audit focused on selected programs administered by the Department of Public Safety for the year ended June 30, 1997. Our audit scope was limited to two revenue programs and a federal program material to Minnesota's Comprehensive Annual Financial Report for fiscal year 1997, and to the requirements of the Single Audit Act. The audited programs included the motor vehicle sales tax system (\$401 million), the registration tax system (\$485 million), and the Federal Disaster Assistance Program (\$64 million).

We concluded that the department's motor vehicle sales tax and registration tax revenues were presented fairly for the purpose of the State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1997. We also concluded that for the items tested, the Department of Public Safety complied with material state laws and regulations related to these revenue systems. However, we identified some internal control and computer system security weaknesses. As a result of inadequate controls, the Prorate Office overpaid \$127,000 of interstate registration taxes.

We also reviewed material compliance requirements related to the Federal Disaster Assistance Program under the Single Audit Act. We concluded that the department had properly accounted for expenditures under this program and had materially complied with most of its requirements. However, we found that the department needs to improve its cash management practices, review subrecipient documentation more timely, and submit required reports to the federal government.

In its written response, the Department of Public Safety agreed with the audit report. The response indicated that the department has already taken corrective action on several of the report's recommendations. The department stated that some of the computer related issues, such as a disaster recovery plan, will be resolved within 18 months.

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Mark Mathison, CPA	Audit Staff
Anna Lamin	Audit Staff

Exit Conference

We discussed the results of the audit with the following Department of Public Safety staff on February 6, 1998:

Don Davis	Commissioner
Fred Petersen	Assistant Commissioner
Paul Aasen	Director, Division of Emergency Management
Frank Ahrens	Director, Fiscal and Administrative Services
Katherine Burke Moore	Director, Driver and Vehicle Services
Marge Noll	Driver and Vehicle Services Program Manager
Dan Boytim	Accounting Supervisor
Janet Cain	Chief Information Officer
Debbie Halfen	Single Audit Coordinator

Chapter 1. Introduction

The Department of Public Safety's principal responsibility is to maintain a safe environment for the citizens of Minnesota. To accomplish this, the department administers and enforces laws relating to drivers, vehicles, traffic, liquor sales, 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. The commissioner oversees the many divisions within the department, including Alcohol and Gambling Enforcement, Bureau of Criminal Apprehension, Driver and Vehicle Services, Emergency Management, State Fire Marshal, and the State Patrol. The current commissioner, Donald Davis, was appointed on April 22, 1996.

For fiscal year 1997, the Department of Public Safety reported net revenues of \$1 billion and net expenditures of \$234 million. The department operated three programs during the fiscal year that we classified as material for audit purposes relating to our Statewide Audit. We performed an audit of both motor vehicle sales and registration taxes collected by the Driver and Vehicle Services Division. In addition, we audited expenditures of the Federal Disaster Assistance Program, administered by the Division of Emergency Management.

The Driver and Vehicle Services Division collected \$401 million in sales taxes on vehicle sales and deposited these receipts to the state's General Fund. The division also collected vehicle registration taxes of \$485 million and deposited these fees to the Highway User Tax Distribution Fund. Finally, the Division of Emergency Management distributed \$64 million in federal disaster assistance grants relating to various storms and floods.

Our work at the Department of Public Safety was completed as part of our Statewide Audit. The primary objective of our 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 1997. 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. The Comprehensive Annual Financial Report for the year ended June 30, 1997, includes our opinion, issued thereon dated December 8, 1997.

The Statewide Audit is also designed to meet the requirements of the Single Audit Act of 1984 and the Acts Amendments of 1996, relating to federal financial assistance. The Single Audit Act established two additional audit objectives and required us to determine whether:

- the state complied with rules and regulations that may have a material effect on each major federal program;

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- the state has internal accounting systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1997, will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in March 1998.

In addition to preparing those standard reports, we have also developed this departmental report to summarize any audit findings and recommendations. In Chapter 2, we discuss motor vehicle sales and registration taxes. Chapter 3 focuses on disaster assistance grants administered by the department. We also reviewed the department's status of audit findings identified in previous years.

Chapter 2. Motor Vehicle Sales and Registration Taxes

Chapter Conclusions

Except for those issues noted below, the Department of Public Safety properly accounted for and reported motor vehicle sales tax revenues of \$401.2 million, and registration tax revenues of \$485.6 million for fiscal year 1997. The department materially complied with finance-related legal provisions for the items tested.

- The Driver and Vehicle Services Division needs to improve its revenue depositing procedure to ensure that all cash collected is properly deposited and reported within the state's accounting system.*
- The department made duplicate payments of \$127,000 of International Registration Plan revenues to participating states as a result of a breakdown in its control structure.*
- The department needs to improve its computer systems security by promptly removing access to systems for its resigned or terminated staff and restrict access of current users to only those functions necessary to perform their job duties.*
- Finally, the department has not yet completed a disaster recovery plan, and the Motor Vehicle System does not allow for the saving of detailed transactions.*

The Department of Public Safety Driver and Vehicle Services Division administers both motor vehicle sales and registration taxes. The division annually registers over 4 million vehicles and processes over 1.5 million motor vehicle titles. 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 Office, which collects taxes on behalf of the International Registration Plan (IRP). This office 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 Office 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 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 Office is responsible for collecting the receipts due from the other jurisdictions.

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For fiscal year 1997, the department collected net motor vehicle sales tax revenues of \$401.2 million and registration tax revenues of \$485.6 million, as reported on the Minnesota Accounting and Procurement System. The motor vehicle registration tax revenues are net of \$24.3 million received by the Prorate Office from local carriers and forwarded to the applicable states and of \$13.7 million received by the Prorate Office from other jurisdictions participating in the International Registration Plan. Revenue collections of sales and registration taxes increased five percent and eight percent, respectively, over those of fiscal year 1996.

Audit Objectives and Methodology

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.

To address these objectives, we conducted interviews with key personnel to gain an understanding of the department's process for the collection, depositing, and reporting of 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 Office. We reviewed security over access of employees to the state's Motor Vehicle System and the Prorate Office's independent computer systems. Finally, we performed various analytical reviews to test data integrity and the reasonableness of reported tax revenues.

Conclusions

We determined that the department properly collected and reported, on the state's accounting system, \$401.2 million of net motor vehicle sales tax and \$485.6 million of net registration tax. We also determined that for the items tested, the department calculated, collected, and deposited sales and registration tax in accordance with the provisions of Minn. Stat. Section 168.013 and Minn. Stat. Section 297B.02. However, as noted in Findings 1 through 5, we identified some internal control weaknesses within the department.

1. The department lacks controls to ensure that all revenue collected is properly deposited.

The Department of Public Safety is not adequately verifying the accuracy of its motor vehicle tax collections. The Driver and Vehicle Services Division established a process to collect cash from its cashiers, reconcile drawer totals, and deposit funds into the state treasury. However, the department did not properly perform daily reconciliations of its deposits to activity inputted to the Motor Vehicle System. Rather than reconciling system transaction totals to actual or independently verified deposits, the division reconciled system totals to deposit forms completed by an individual that deposits the funds. By not reconciling to an independently verified form or to actual deposits, missing or improperly coded deposits could occur and may not be detected.

Because the department's system does not allow for reconciliations over an extended period or to the sum of the amounts posted to individual customer's accounts, it is critical that accurate daily

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reconciliations occur. The department could correct this weakness by making small modifications in its process and its flow of documentation.

Recommendation

- *The Department of Public Safety needs to ensure that all revenue collected is properly deposited by daily reconciling its deposits to its motor vehicle transactions.*

2. As a result of inadequate internal controls, the Prorate Office overpaid \$127,000 of interstate registration taxes to jurisdictions participating in the International Registration Plan.

We found that the Prorate Office lacks sufficient preventive and detective controls to properly administer payments to jurisdictions participating in the International Registration Plan (IRP). Inappropriate systems access, in conjunction with a lack of reconciliations, resulted in the department over paying \$127,000 to IRP jurisdictions.

The office remits interstate registration taxes to other jurisdictions on a monthly basis as part of the IRP. The office uses a computer system, VISTA, to track taxes collected from its local carriers on behalf of other jurisdictions. Monthly, the office remits the amounts due to the corresponding jurisdiction based on computer generated reports. We found that the Prorate Office allowed its employees to share login IDs and passwords to certain user accounts on the VISTA system. In addition, the office granted these shared accounts unrestricted access to many functions within the VISTA system. The accounts permitted employees to void previously performed transactions and to make financial adjustments. The practice of allowing shared accounts greatly reduces the department's ability to prevent errors or irregularities from occurring.

Furthermore, the office did not perform any cumulative-to-date reconciliations of interstate taxes collected to the actual amount remitted to other jurisdictions. The office relies only on the accuracy of monthly reports that show the amount of tax collected on behalf and due to other jurisdictions. However, due to system inefficiencies, when the office processes adjustment or void transactions, it needs to manually adjust the monthly reports, whereas, the system properly tracks cumulative amounts. In the event that the Prorate Office does not properly account for voids or adjustments, it is possible that the office could over or underpay a jurisdiction and it would not be detected unless cumulative reports are used.

We noted two instances where employees voided transactions and did not properly account for these voids on the monthly reports. As a result, the Prorate Office overpaid a total of \$127,000 to various jurisdictions.

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Recommendations

- *The Prorate Office should not allow the use of shared accounts in its computer system. In addition, the office should limit access to system resources to those that a user needs to perform its normal job duties.*
- *The Prorate Office should establish a control that would detect over and underpayments of IRP taxes to other jurisdictions.*
- *The Prorate Office should pursue the collection of the overpaid funds.*

3. The department needs to improve security access to its computer resources.

The Department of Public Safety had various control weaknesses relating to its logical security governing access to its computer applications. First, the department does not properly limit the access of its users to the Motor Vehicle System. As noted in the Status of Prior Audit Issues section, the department had implemented a prior recommendation relating to access control by restricting the access of its computer programmers. However, the department also granted incompatible accesses that allow staff that control inventory of motor vehicle registration stickers to also process motor vehicle registration transactions. Because the possession of a registration sticker is an integral part of the controls over motor vehicle registration, individuals who control the inventory should not be able to assign those stickers to a vehicle.

Secondly, we observed that system access was not removed in a timely manner for those users who had transferred job duties or were no longer employed by the department. The security administrator occasionally reviews access for inactive or old accounts. However, communication from area supervisors as to when a user needs to be removed is not always provided in a timely manner to the security administrator.

Further, as noted in Finding 2, the Prorate Office had provided inappropriate access to its VISTA system. The Prorate Office also provided administrative access to 50 percent of its point of sale software users. With administrative access, users have the right to establish new users, reset passwords, maintain tables, authorize refunds, and perform other high risk transactions.

Finally, the security feature that controls access to the point of sale software used by the Prorate Office is not sufficient to individually be relied upon. We found that the system accepts passwords of only one character and allows an unlimited number of attempts to gain access. The passwords have no expiration period allowing a user to continually access the system until they are removed by an administrator. Further, the security feature grants access to certain functions even if an administrator has restricted the user from accessing those functions. The Prorate Office relies on some mitigating controls to help complement some of these weaknesses. However, for a system and its data to be adequately secured, logical security needs to be effective.

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Recommendations

- *The Department of Public Safety should limit access to system resources to those functions that a user needs to perform their normal job duties.*
- *The department should remove access in a timely manner for users that no longer have a need to the resources.*
- *The department should work with the vendor of its point of sale software to fix the security weaknesses.*

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

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

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 which may occur in a time of crisis, such as the replacement of essential personnel, facilities, and supplies. It is also important to periodically test and maintain disaster recovery plans.

The Department of Administration InterTech Division has a disaster recovery plan for the state's central computer facility. InterTech 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 for its Driver and Vehicle Services systems. 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. The department received funding in fiscal year 1998 to obtain some computer resource necessary to create data redundancy. The department purchased a back-up mainframe, but has not currently addressed other concerns.

Recommendation

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

5. PRIOR FINDING NOT RESOLVED: The Department of Public Safety does not retain detailed history of transactions occurring within the Motor Vehicle System.

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

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motor vehicle records. Employees enter these transactions using computer terminals or electronic scanners. The transactions can change or delete existing records in the database or add new records. The department deletes these detailed transactions shortly after updating the database. Without these transactions, it is extremely difficult to correct errors or diagnose problems.

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, detailed transaction history files are an important internal control in a computerized environment. Historical transactions allow management the ability to ensure that data changes are appropriate and provide the ability to trace transactions to a source, potentially disclosing any existing weaknesses.

Recommendation

- *The Department of Public Safety should save transaction history files after updating its database.*

Chapter 3. Federal Disaster Assistance Grants

Chapter Conclusions

The Department of Public Safety properly recorded the financial activity for the Federal Disaster Assistance Grants (CFDA #83.516) on the state's accounting system (MAPS). We noted the following reportable conditions involving internal control over compliance related to the Federal Disaster Assistance Grants. The department does not adequately manage the time elapsing between its disbursements of disaster assistance and the receipt of federal funds from the U.S. Treasury. The department did not timely review nor process Public Assistance Program documents relating to project completions. Finally, the department did not submit quarterly progress reports to the federal government for these projects.

The Division of Emergency Management (DEM) is responsible for reducing or eliminating the effects of natural or technological disasters by promoting prevention, ensuring emergency preparations, coordinating and participating in state agency response, and providing resources for recovery. One of the divisions tasks is to administer and distribute Federal Disaster Assistance. The division works in conjunction with the Federal Emergency Management Agency (FEMA) to provide assistance to states, local governments, and select non-profit organizations under the Public Assistance Program and to individuals or families under the Individual and Family Grant Program. Assistance is provided to help alleviate suffering and hardship resulting from major disasters or emergencies declared by the President.

Following a Presidential declaration of a major disaster, FEMA awards grants for public or individual assistance. The state may use the funds to restore its own disaster-damaged projects or to provide subgrants to eligible local governments, select non-profit organizations, and eligible individuals and families. During fiscal year 1997, the President declared three new disasters within the state of Minnesota and awarded over \$95 million in federal assistance. In total, the department disbursed \$64 million of federal funds and \$6 million of state match relating to 11 disasters that occurred within the last three years. Table 3-1 shows the distribution of federal funds for disaster relief in fiscal year 1997.

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Table 3-1
Federal Disaster Assistance
Fiscal Year 1997 Disbursements by Disaster

Spring Floods of 1993	\$ 2,992,130
Ice Storms of October 1995	2,324,921
Spring Floods of 1996	7,319,307
Ice Storm of November 1996	3,467,289
Winter Storms of January 1997	24,291,486
Spring Floods of 1997	21,424,398
Other	<u>1,940,833</u>
Total	<u>\$63,760,364</u>

Source: Minnesota Accounting and Procurement System (MAPS).

Audit Objectives and Methodology

Our audit was conducted to meet the requirement of the Single Audit Act. The objectives of the Single Audit Act related to federal financial assistance include:

- Did the Department of Public Safety comply with material rules and regulations applicable to the Disaster Assistance Program?
- Did the department properly record financial activity within the state's accounting system?

The U.S. Office of Management and Budget Compliance Supplement discusses the program's objective. In addition, it contains specific compliance requirements that the state must meet in order to receive federal funds. The supplement categorizes these requirements into the following: activities allowed or unallowed, allowable costs, cash management, Davis-Bacon Act, eligibility, equipment and real property management, matching and level of effort, period of availability, procurement and suspension, program income, real property acquisition and relocation assistance, reporting, subrecipient monitoring, and special tests and provisions. We performed testing to determine the department's adherence to the requirements outlined within the Compliance Supplement.

To accomplish this, we conducted interviews and reviewed the department's internal controls for managing the federal program. We tested financial transactions related to the program to determine compliance with program regulations. We also reviewed reports submitted by the department to determine the accuracy in its reporting.

Conclusion

The Department of Public Safety properly recorded the financial activity for the Federal Disaster Assistance Grants in the state's accounting system (MAPS). We noted certain reportable conditions involving internal control over compliance related to the Federal Disaster Assistance Grants. As discussed in Finding 6, the department did not properly manage the timing of its federal expenditures to its request for federal funds. Further, the department did not timely

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review and process documents relating to the completion of Public Assistance projects, as discussed in Finding 7. Finally, the department did not submit quarterly Public Assistance progress reports to FEMA, as discussed in Finding 8.

6. The Department of Public Safety did not properly manage the timing of its federal drawdowns.

We found that the department did not request federal drawdowns on a timely basis to have sufficient funds on hand for its immediate needs. The department disbursed federal assistance without having funds to cover the expenditures. State funds were used to supplement the expenditures until the department requested federal funds to reimburse the accounts. Technology allows for the department to request and receive federal funds timely. However, in addition to other periods of untimely drawdowns, we observed two periods of 19 and 21 consecutive days in which the department supplemented federal disaster assistance expenditures in excess of \$1 million with state funds. As a result of the delay in requesting the federal funds, the state had unnecessary cash tied to these obligations, hindering its cash flows and costing the state lost interest.

We also discovered other occasions when the department retained excessive federal funds beyond its immediate needs. We noted one period of 26 consecutive days in which the department held over \$500,000 of federal disaster assistance funds. The excessive funds were attributable to a delay in issuing a \$2.5 million payment for which the department had previously requested and received the federal funds.

Federal requirements provide that procedures need to be followed to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursements by the state. In addition, the state requires that agencies limit federal cash supplements and timely draw federal funds. We estimated that, in total for fiscal year 1997, the state lost the ability to earn over \$11,000 of interest due to funds being unnecessarily obligated to these federal expenditures. We believe that the department can improve its cash management practices so that it draws federal funds in a manner that neither the state nor the federal government gains interest income at the expense of the other.

Recommendation

- *The Department of Public Safety needs to better monitor its federal cash flows and timely drawdown necessary funds for its current obligations. The department could improve its process by drawing down less funds more often.*

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7. The Department of Public Safety did not review and process documents relating to the completion of Public Assistance projects in a timely manner.

The Division of Emergency Management did not review nor process documents relating to project completion in a timely fashion for the Public Assistance Program. Subrecipients of disaster assistance sent information to the division after they had completed all of their projects in order to close their files and, thereby, receive their final grant payments. We observed various projects of which four months to over a year had past before the division reviewed the necessary documents.

The Code of Federal Regulations requires that the state develop a plan to determine staffing and budgeting requirements necessary for the proper management of the Public Assistance program. The Code of Federal Regulations also stipulated that the division shall submit payment claims as soon as practicable after the subrecipient had completed the approved work and requested payment. FEMA does provide the division with Federal funds to aid in the administration of the Public Assistance program.

Recommendation

- *The Department of Public Safety should review and process final claims of subrecipients of disaster assistance in a timely manner.*

8. The Department of Public Safety did not submit quarterly reports to the FEMA Regional Director for the Public Assistance Program.

The Division of Emergency Management did not submit required reports to the Federal Emergency Management Agency. Quarterly progress reports for the Public Assistance Program are required, under the Code of Federal Regulations, to be submitted to the FEMA Regional Director. The reports should describe the status of large projects and outline any problems or circumstances expected to result in non-compliance with approved grant conditions. The division's guidelines require that sub-grantees report quarterly on the progress of their projects, so that the division can complete and submit its report to FEMA. However, the division did not ensure that sub-grantees submitted quarterly reports, nor did it track reports that were submitted. As a result, the division has never submitted its quarterly progress reports to FEMA.

Recommendation

- *The Department of Public Safety should either submit quarterly progress reports to the FEMA Regional Director for the Public Assistance program or it should obtain a notice from FEMA that exempts it from this requirement.*

Status of Prior Audit Issues

As of December 12, 1997

Most Recent Audit

January 3, 1997, Legislative Audit Report 97-1 focused on motor vehicle sales and registration taxes collected during fiscal year 1996. We identified four audit findings in that report. Of primary concern was an issue, also involving the Department of Finance and the State Treasurer's Office, relating to deputy registrar deposits not being invested timely. The department has recently implemented various pilot projects in an effort to reduce the timing delay. The department had also improved its systems security by restricting the access of its programmers to the Motor Vehicle System, however, other concerns relating to system access still exist (see current Finding 3). In addition, the department has yet to implement a disaster recovery plan for its critical business functions (see current Finding 4), which was first addressed during our Statewide Audit for fiscal year 1995 (Legislative Audit Report 96-15). Finally, the department does not save motor vehicle transaction history files after the database has been updated (see current Finding 5). This issue dates back to our Statewide Audit for fiscal year 1994 (Legislative Audit Report 95-21). The department had indicated that this issue will be addressed with the hiring of additional programmers. The department has recently obtained some new programmers.

Other Audit History

May 12, 1995, Legislative Audit Report 95-21 was the last audit of the Department of Public Safety's Disaster Assistance Program. We issued that report with no reportable conditions relating to the program. During that audit, we did develop some issues that we addressed orally with management. The department had taken corrective actions concerning those issues with the exception of some cash management weaknesses. Those cash management weaknesses had escalated to a reportable condition during our current audit (see current Finding 6).

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Department of Public Safety

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MINNESOTA DEPARTMENT OF PUBLIC SAFETY



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February 13, 1998

James R. Nobles
Legislative Auditor
1st Floor South
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

At the audit exit conference on February 6, 1998, we were provided a copy of the draft audit report for the Department of Public Safety. We also received a copy of the revised draft on February 10, 1998. Our written response to the findings and recommendations are in the order presented in the draft report. Kathy Burke-Moore will be responsible for the implementation of our response to findings number one through three and number five. Janet Cain will be responsible for the implementation of our response to finding number four, Frank Ahrens for finding number six and Paul Aasen will be responsible for finding number seven and eight.

FINDING NUMBER ONE:

The department lacks controls to ensure that all revenue collected is properly deposited.

Recommendations:

The Department of Public Safety needs to ensure that all revenue collected is properly deposited by daily reconciling its deposits to its motor vehicle transactions.

Response:

Driver and Vehicle Services has changed the deposit process in Cashiers Unit as follows:

- Employee 1 counts cash and prepares deposit tickets.
- Employee 2 enters deposit into MAPS system based on form received from Employee 1. (State Treasurer's Office reconciles MAPS to bank deposits.)

Alcohol &
Gambling
Enforcement

Bureau of
Criminal
Apprehension

Capitol Security

Driver & Vehicle
Services

Emergency
Management /
Emergency
Response
Commission

State Fire
Marshal /
Pipeline Safety

State Patrol

Traffic Safety

- Employee 3 reconciles deposit to motor vehicle system daily totals, using form received from Employee 2 after it has been input into the MAPS system. (Previously, the reconciliation had been performed using an uncoded document from Employee 1.)

This change has been implemented.

FINDING NUMBER TWO:

As a result of inadequate internal controls, the Prorate Office overpaid \$127,000 of interstate registration taxes to jurisdictions participating in the International Registration Plan.

Recommendations:

The Prorate Office should not allow the use of shared accounts in its computer system. In addition, the office should limit access to system resources to those that a user needs to perform its normal job duties.

The Prorate Office should establish a control that would detect over and underpayments of IRP taxes to other jurisdictions.

The Prorate Office should pursue the collection of the overpaid funds.

Response:

Overpayments:

On October 30, 1997, the affected IRP jurisdictions were notified of the overpayment. Adjustments of this overpayment were made on the next applicable transmittal to the affected jurisdictions. The prorate office has on file the fund adjustment documentation to the affected jurisdictions. A system event history log is available to the vendor that identifies the user ID to a void payment transaction. The void payments were not voided with a shared login ID. Documentation from the vendor is on file with the prorate office indicating the user ID associated with the two void payments that resulted in overpayment of IRP fees.

The current vendor contract expires August 1998. A vendor supplied computer system request for proposal (RFP) is in process and a new contract will be in place August 1998. We have asked that the system prohibit a void payment if taxes have been transmitted to IRP jurisdictions. The prorate office requested that this functionality be available by August 1998.

Systems access:

The shared IDs were deleted on October 27, 1997. The Prorate office will no longer establish shared access to the system and has discontinued the practice of issuing additional generic system access. In addition, on October 27, 1997, the Prorate supervisory staff reviewed the access to VISTA system resources and modified several so that the system access matched the need of the user job duties.

Reconciliation:

The Prorate office has established a procedure and put a mechanism in place to extract reports from the system to perform cumulative-to-date reconciliations of interstate taxes collected and remitted to the member jurisdictions. This report will be generated each quarter and reconciled to prior transmittal reports. This function will be performed by the Prorate Clerk 4 position.

FINDING NUMBER THREE:

The department needs to improve security access to its computer resources.

Recommendations:

The Department of Public Safety should limit access to system resources to those functions that a user needs to perform their normal job duties.

The department should remove access in a timely manner for users that no longer have a need to the resources.

The department should work with the vendor of its point of sale software to fix the security weaknesses.

Response:

There was specific mention in the narrative to the staff having access to both entry screens and inventory modification screens. Steps have been taken to change the security levels of the employees mentioned to assure that this problem is resolved. We will also be taking steps to review the security levels of all DVS employees during calendar year 1998 to assure that similar problems do not exist.

The personnel expeditor in the division will be sending timely reports to the division's security officers of all employee transactions involving termination, retirement and transfer. Based on this information the appropriate action will be taken to either cancel the employee's access or modify it based on their new position.

The point of sale software package was purchased to replace the cash register. This is an off-the-shelf software system available on state contract. The objective was to

replace the cash register with a system that would provide a report writing mechanism and a means of maintaining the payment data so that prorate could comply with prior legislative audit recommendations. The security feature of the product was a secondary concern.

Prorate is reviewing the point of sale administrative user functions and will modify administrative user system access. Only users that need administrative access to perform their normal job duties will be given access. This review and modification will be completed by March 1, 1998. In addition, the prorate office contacted the vendor and requested a cost and feasibility report for the password functionality. The vendor indicated a response by April 1, 1998.

The point of sale software is designed to allow access to the cash register function when a user ID and password have been established. The Prorate office monitors which employees require access to the cash register to perform their job duties. The prorate office is testing system access to ensure that access to certain functions matches the point of sale user security profile. Prorate will work with the vendor to correct any access to restricted system functions. Prorate's test of the system will be completed by March 1, 1998. Prorate will immediately contact the vendor for corrections.

FINDING NUMBER FOUR - PRIOR FINDING NOT RESOLVED:

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

Recommendations:

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

Response:

The Department of Public Safety initiated an effort to develop a department disaster recovery plan, which was led by a department staff person. This person left his position and the person who replaced him in this effort also left the department prior to any significant completion of the plan. Consequently, the department has concluded that this effort must be facilitated by professional disaster recovery planners and has engaged the Department of Administration's InterTech Group to present a proposal and assist the department through this planning process. The plan will include both the technical aspects of recovery and the business recovery components. InterTech's proposal will be presented to the department's Executive Board on March 3, 1998 and the planning process is expected to begin in April 1998. Since the planning team has not determined the full scope of the project and its schedule, at this point a completion date is estimated to be in about eighteen months or in October 1999.

FINDING NUMBER FIVE - PRIOR FINDING NOT RESOLVED:

The Department of Public Safety does not retain detailed history of transactions occurring within the Motor Vehicle System.

Recommendations:

The Department of Public Safety should save transaction history files after updating its database.

Response:

The request for the necessary programming has been submitted to our programmers and is on our list of tasks to be completed. Due to a limited number of programmers we have been unable to complete any programming other than that mandated by the legislature and to keep our system functioning properly. Programming positions have now been filled. The request for this program will be given a priority that will make it one of the first worked on once we are current on legislative and maintenance programming. Bar any system emergencies, DPS should begin the programming by the end of this fiscal year.

FINDING NUMBER SIX:

The Department of Public Safety did not properly manage the timing of its federal drawdowns.

Recommendations:

The Department of Public Safety needs to better monitor its federal cash flows and timely drawdown necessary funds for its current obligations. The department could improve its process by drawing down less funds more often.

Response:

The Department of Public Safety has amended the current administrative policy and procedures on Federal Cash Management to strengthen the level of compliance. We have amended the policy to include the following new requirements: 1. To draw down only the federal funds that can be disbursed within five days. 2. To monitor the level of compliance with the Cash Management Improvement Act of 1990 (CMIA) by tracking federal draws, refunds, and payments by appropriation unit, Catalog of Federal Domestic Assistance (CFDA) number, transaction dates, and transaction dollar amounts. Tracking reports will display cumulative daily totals and average daily balances.

In State fiscal year 1998, the federal disaster grant appropriations have been set so that we cannot make disbursements from these accounts without sufficient cash balance. Although the State has a procedure for agencies under MAPS Policy 0402-01, Federal Cash Management, to make disbursements from federal accounts without sufficient cash balance, DPS has not exercised that option in fiscal year 1998 for disaster assistance payments.

The following statement in the audit report, "The excessive funds were attributable to a delay in issuing a \$2.5 million payment for which the department had previously requested and received the federal funds," was caused by the following set of circumstances.

The Division of Emergency Management (DEM) submitted invoices for payment on May 12, 1997 to Fiscal and Administrative Services. A federal funds drawdown was subsequently made to obtain sufficient cash to pay the claims. This \$2.5 million in excessive federal funds on hand occurred when the amount of the invoice payable to the Department of Military Affairs was included in the drawdown, but because the Department of Military Affairs had not established an appropriation to receive this grant payment, the payment could not be processed.

FINDING NUMBER SEVEN:

The Department of Public Safety did not review and process documents relating to the completion of Public Assistance projects in a timely manner.

Recommendations:

The Department of Public Safety should review and process final claims of subrecipients of disaster assistance in a timely manner.

Response:

The Division of Emergency Management (DEM) was unable to process final claims in a timely manner during fiscal year 1997 because of the extraordinary number of open disaster declarations and the changes in disaster assistance funding sources. DEM is taking steps to reduce the backlog. In early February, DEM staff met with Federal Emergency Management Agency staff to determine a process for closing "old" disasters. An October 1998 target has been set for closing the five oldest disasters. These closings will be accomplished through streamlined procedures and additional staff time. Beginning in April 1998, DEM will be meeting with all state agencies involved with disaster assistance to determine if any process re-engineering opportunities exist which could prevent future backlogs.

FINDING NUMBER EIGHT:

The Department of Public Safety did not submit quarterly reports to the FEMA Regional Director for the Public Assistance Program.

Recommendations:

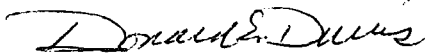
The Department of Public Safety should either submit quarterly progress reports to the FEMA Regional Director for the Public Assistance program or it should obtain a notice from FEMA that exempts it from this requirement.

Response:

The Division of Emergency Management will contact FEMA and determine by the end of March 1998 if quarterly reports are required for the Public Assistance Program. If quarterly reports are not required, DEM will obtain supporting documentation. If such an exemption is not possible, DEM will institute a quarterly reporting process.

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

Sincerely,



Donald E. Davis
Commissioner, Department of Public Safety

cc: Fred Petersen
Frank Ahrens
Kathy Burke-Moore
Janet Cain
Paul Aasen

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