
Department of Public Safety

**Statewide Audit – Selected Programs
Fiscal Year Ended June 30, 1998**

March 1999

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

99-15

SUMMARY

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Department of Public Safety

Statewide Audit – Selected Audit Areas For the Fiscal Year Ended June 30, 1998

Public Release Date: March 5, 1999

No. 99-15

Background Information

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 1998, totaled approximately \$1.2 billion and \$291 million, respectively. The current commissioner, Mr. Charlie Weaver, was appointed in January 1999. Mr. Donald Davis was the commissioner during all of fiscal year 1998.

Selected Audit Areas and Conclusions

Our audit scope within the Department of Public Safety was limited to those activities material to the State of Minnesota's general purpose financial statements and to federal programs, which were considered material for Single Audit purposes, for the year ended June 30, 1998. Our scope included revenues related to motor vehicle registration taxes, motor vehicle excise taxes, and federal disaster assistance grants paid to governmental organizations and non-profit entities.

We qualified our report, dated December 1, 1998, on the State of Minnesota's general purpose financial statements because insufficient audit evidence exists to support the State of Minnesota's disclosures with respect to the year 2000. Auditing the state's year 2000 compliance was not an objective of this audit. As a result, we do not provide assurance that the Department of Public Safety is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Public Safety does business will be year 2000 ready.

For the areas audited, the Department of Public Safety's financial activities were fairly presented in the State of Minnesota's general purpose financial statements for the year ended June 30, 1998. For the federal program tested, the department materially complied with compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that were applicable to the Federal Emergency Management Agency's Public Assistance Program for the year ended June 30, 1998.

However, various accounting adjustments were required for both revenues and expenditures as a result of the department not ensuring accurate and timely entry of financial information to the state's accounting system. We also observed that the department's Prorate Office had not timely made all its deposits in accordance with Minnesota Statute. Further, we found that the department did not adequately monitor its subrecipients, nor did it submit required reports and documents to the federal government for disaster assistance programs. We also found weaknesses that resulted in noncompliance with established time limits for the completion of projects using public assistance grants and we questioned the appropriateness of approximately \$50,000 of authorized awards.

In its written response, the Department of Public Safety agreed with the audit report. The department is taking corrective actions to resolve the issues.

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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, CISA | Auditor-In-Charge |
| Anna Lamin | Senior Auditor |

Exit Conference

We discussed the results of the audit with the following Department of Public Safety staff on February 19, 1998:

| | |
|-----------------------|--|
| Mancel Mitchell | Deputy Commissioner |
| Paul Aasen | Assistant Commissioner/Director, Division of Emergency Management |
| Katherine Burke Moore | Director, Driver and Vehicle Services |
| Frank Ahrens | Director, Fiscal and Administrative Services |
| David Lundberg | Assistant Director, Division of Emergency Management |
| Daniel Boytim | Accounting and Budget Supervisor |
| Debbie Halfen | Single Audit Coordinator |

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

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Charlie Weaver, Commissioner
Department of Public Safety

We have performed certain audit procedures at the Department of Public Safety as part of our audit of the State of Minnesota's financial statements for the year ended June 30, 1998. We also have audited the federal Disaster Assistance Program, administered by the Department of Public Safety, as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of the state's major federal programs for the year ended June 30, 1998. We emphasize that this has not been a comprehensive audit of the Department of Public Safety.

Table 1-1 identifies the financial activities within the Department of Public Safety that were material to the state's financial statements. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements were free of material misstatement.

Table 1-1
Programs Material to the State's Financial Statements
Fiscal Year 1998

| | <u>Amount</u> |
|------------------------------------|---------------|
| <u>Revenue Areas</u> | |
| Motor Vehicle Registration Tax | \$512,932,000 |
| Motor Vehicle Excise Tax | \$449,647,000 |
| <u>Expenditure Areas</u> | |
| Federal Disaster Assistance Grants | \$126,499,000 |

Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998.

The Department of Public Safety's Driver and Vehicle Services Division administers both motor vehicle excise and registration taxes. The division annually registers over 4 million vehicles and processes over 1.5 million motor vehicle titles. 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

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for the Prorate Office, which collects and distributes interstate registration taxes on behalf of the International Registration Plan (IRP).

The department's Prorate Office receives sales and registration taxes from interstate carriers located within the state. On the basis of reported miles traveled in each state and/or Canadian Provinces participating in the IRP, the Prorate Office allocates the tax amounts to the applicable jurisdictions. It then forwards those receipts due to other jurisdictions 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.

For fiscal year 1998, the prorate office received \$41.6 million of interstate registration taxes from its local carriers and forwarded \$26.1 million of those funds to the applicable states and/or Canadian Provinces that participated in the IRP. In addition, the Prorate Office received \$13.7 million from those jurisdictions that had carriers which traveled in Minnesota. In total, the department's collection of excise and registration taxes increased 12 percent and 5.6 percent, respectively, over those of fiscal year 1997.

The Department of Public Safety also administered one federal program that was considered a major federal program for financial reporting and auditing purposes. The department administered the Federal Emergency Management Public Assistance Program (CFDA 83.544). We performed certain audit procedures on this program as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the applicable compliance requirements for the program.

The Division of Emergency Management is responsible for administering and distributing federal disaster assistance. The division works in conjunction with the Federal Emergency Management Agency (FEMA), to provide assistance to state, local governments, and select non-profit organizations under the Public Assistance Program. Following a Presidential declaration of a major disaster, FEMA awards grants for public assistance. The state may use the funds to restore its own disaster-damaged projects or to provide subgrants to eligible local governments or select non-profit organizations.

During fiscal year 1998, the President declared three new disasters within the State of Minnesota and awarded over \$153 million in federal assistance for these and past-years disasters. In total, the department disbursed \$127 million of federal funds and \$3.2 million of state match relating to 13 disasters. Many disaster projects take some time to complete. As such, the department will distribute any remaining awards and state match as subgrantees incur financial obligations. Table 1-2 shows the distribution of federal funds during fiscal year 1998 to the relevant disasters.

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Table 1-2
Federal Emergency Management Public Assistance Grant (CFDA 83.544)
Disbursements by Disaster
Fiscal Year 1998

| | |
|------------------------------|----------------------|
| Spring Floods of 1993 | \$ 3,661,377 |
| Ice Storm of November 1996 | 7,547,589 |
| Spring Floods of 1997 | 97,472,723 |
| Severe Storms June/July 1997 | 8,133,535 |
| Tornadoes of March 1998 | 7,548,576 |
| Other | <u>2,576,755</u> |
| Total | <u>\$126,940,555</u> |

Source: Minnesota Accounting and Procurement System.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusions

We qualified our report dated December 1, 1998, on the State of Minnesota's general purpose financial statements, because of uncertainties about the potentially adverse effect the year 2000 computer issue may have on state operations. Information technology experts believe that many computer applications in private businesses and government may fail as a result of data integrity problems and erroneous calculations beyond December 31, 1999. The state is currently addressing year 2000 issues related to its computer systems and other electronic equipment. During fiscal year 1996, the state established the Minnesota Year 2000 Project Office to develop and monitor the overall statewide effort for executive branch agencies. The project office is tracking over 1,300 mission-critical applications owned by state agencies. As of September 1998, the project office believed that 75 percent of the applications were compliant or had completed the necessary modifications. However, because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Although we acknowledge that the Department of Public Safety has conducted year 2000 testing, auditing the year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that the department is or will be year 2000 ready; that its remediation efforts will be successful in whole or in part; or that parties with which the Department of Public Safety does business will be year 2000 ready.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 1, 1998, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

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For the areas audited, the Department of Public Safety's financial activities were fairly presented in the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. For the Federal Emergency Management Public Assistance Program, the department complied with most compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that were applicable for the year ended June 30, 1998. However, as a result of our procedures, we identified the following weaknesses in internal control and instances of noncompliance with finance-related legal provisions or program requirements at the Department of Public Safety.

MOTOR VEHICLE REGISTRATION AND EXCISE TAX ISSUES

1. The Department of Public Safety did not ensure that deposits of motor vehicle taxes were entered accurately and timely into the state's accounting system.

The Department of Public Safety did not ensure that all motor vehicle revenues were properly and promptly recorded on the State of Minnesota's Accounting and Procurement System (MAPS). First, we found various instances in which the dates of deposits and fiscal periods were not accurately posted. In addition, the department also did not ensure timely postings of deposits for its deputy registrars.

Rather than entering the actual date that receipts were deposited in local depositories, as required by the Department of Finance, input operators often allowed the date to default to the current date. Generally, most state agencies enter receipts in the accounting system the same day the funds are deposited. However, the department often had delays in obtaining necessary information from deputy registrars located across the state. Erroneous data entry resulted in inaccurate information on the lag time between an actual deposit and the time the funds are recognized on the accounting system. Inaccurate information can lead to incorrect management decisions. Further, incorrect dates may result in revenues being posted and reported to incorrect accounting periods.

Also, the department had not adequately reduced the number of days that deputy registrar receipts remained in local depositories before being recorded by the State Treasurer. The State Treasurer transfers funds from the various local depositories once the deposits are identified on the accounting system. During our fiscal year 1996 audit, we recommended that the Department of Public Safety consider changes in posting motor vehicle receipts to MAPS for its deputy registrars. We believed that the state had lost over \$800,000 of annual investment income due to unnecessary delays in entering deposits to the accounting system. During that audit, the Department of Finance, on behalf of the Department of Public Safety, entered the deposits onto MAPS for all deputy registrars. By October 1997, the department implemented a pilot project by which it established on-line access to MAPS for its five largest deputy registrars and modified the input process for thirty-two other deputy registrars. However, we observed that many deputies, including ones with on-line access, still averaged approximately four days delay before funds were available for investment purposes. The department instructed deputy registrars with on-line access to enter revenue collections on a daily basis. However, we found that the Hennepin County deputy registrar often delayed posting daily deposits and entered as many as four or five days of activity at one time. The department failed to recognize these delays and require corrective actions. As a result, the state did not reap the anticipated benefits by granting the deputy registrar on-line access. The Hennepin County deputy registrar collected an average

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of \$143,000 per day, or \$37 million in motor vehicle taxes during fiscal year 1998. For all its deputies, we calculated that the state lost the opportunity to earn more than \$450,000 during fiscal year 1998 because of untimely postings of receipts.

As shown in Table 1-3, we recognize that improvements have been made during the last three years to improve the posting process. However, we still believe that a more efficient process is necessary.

Table 1-3
Department of Public Safety
Deputy Registrar Motor Vehicle Revenue Deposits
Average Delays in Posting and Lost Investment Income
Fiscal Years 1996 through 1998

| | <u>1996</u> | <u>1997</u> | <u>1998</u> |
|------------------------------------|-------------|-------------|-------------|
| Average Delays in Posting Deposits | 4-12 Days | 4-7 Days | 4-5 Days |
| Estimated Lost Investment Income | \$800,000 | \$515,000 | \$450,000 |

Source: Auditor created using data from the Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997 and 1998. Investment income was calculated using a five percent annual rate of return.

We observed that most delays in fiscal year 1998 dealt with the timing of mail service. We believe that electronic data transfer would greatly reduce the delays in posting the deposits. As evident in Table 1-4, the department's pilot project of providing on-line access has significantly reduced posting delays and lost investment opportunities.

Table 1-4
Department of Public Safety
Comparison of Delays and Lost Investment Opportunities for Five Deputy Registrars
Under an On-Line Access Pilot Project
Fiscal Years 1997 to 1998

| Deputy Registrar | Average Posting Delays | | Estimated Lost Investment Income | |
|------------------|------------------------|--------------|----------------------------------|--------------|
| | <u>FY 98</u> | <u>FY 97</u> | <u>FY 98 *</u> | <u>FY 97</u> |
| South St. Paul | 0 - 1 Day | 4 - 5 Days | \$ 1,200 | \$10,500 |
| Hennepin County | 3 - 4 Days | 4 - 6 Days | 20,000 | 24,600 |
| White Bear Lake | 0 - 1 Day | 5 Days | 7,400 | 17,800 |
| Circle Pines | 0 - 1 Day | 4 - 5 Days | 3,300 | 27,300 |
| Anoka County | 0 - 1 Day | 3 - 4 Days | 5,300 | 16,800 |

Note (*) Deputy registrars were not on-line for all of fiscal year 1998.

Source: Auditor created using data from the Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997 and 1998. Investment income was calculated using a five percent annual rate of return.

In addition to incorrect dates and time lags, we also observed that each of the five deputy registrars with on-line access to MAPS posted year-end accrual transactions to the wrong fiscal year. The department only identified and corrected errors for three of the five deputy registrars.

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Erroneous deposit dates and fiscal years resulted in \$1.2 million of motor vehicle registration and excise taxes being posted to incorrect accounting periods.

Recommendations

- *The department should establish procedures to ensure that receipts are properly and promptly entered into the accounting system .*
- *The department should consider using an electronic method to transfer necessary deposit information to enable prompt postings of revenue.*

2. The Department of Public Safety did not deposit all receipts daily, as required by Minnesota Statute.

The Department of Public Safety receives a large volume of interstate registration tax payments during the month of February, as these taxes are due on March 1 of each year. As a result of the large incoming volume, the department was unable to process and deposit all receipts received during various days of February 1998. Minn. Stat. Section 16A.275 requires state agencies to make daily deposits when receipts are greater than \$250. The statute does allow for exemptions, by the Department of Finance, if an agency can justify that the cost of making the deposits exceeds the lost investment opportunities or risks of theft. The department has not been granted, nor has it requested an exemption.

During the period of mid-February through the first week in March, some receipts were held four to five days before being deposited to the state treasury. Generally, however, the division fell about one day behind on processing receipts, which averaged approximately \$1 million during this busy period.

Recommendation

- *The department should deposit funds in accordance with statutory time frames or request an exemption from the requirements.*

DISASTER ASSISTANCE PROGRAM ISSUES

3. The Department of Public Safety did not establish proper and consistent accounting for disaster assistance expenditures and liabilities.

The Department of Public Safety did not consistently account for disaster assistance obligations in the Minnesota Accounting and Procurement System (MAPS). The department also lacked other means to determine obligations at year-end. As a result, the department could not make an accurate estimation of disaster assistance liabilities to be reported in the state's Comprehensive Annual Financial Report and Single Audit Schedule.

Generally, the department issues disaster assistance grants to eligible subrecipients for costs already incurred. The Department of Finance dictates that grants paid on a reimbursement basis are to be recognized as expenditures and liabilities in the year in which the grantee incurs the

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costs or makes eligible types of expenditures. If the state has outstanding obligations as of June 30, those liabilities should be properly disclosed in its financial statements. However, the department had not established an adequate method to identify disaster assistance liabilities and to properly post those obligations to the correct fiscal period. In fact, the Department of Public Safety had not adequately considered how to account for the various payment scenarios associated with the disaster assistance program. By not correctly identifying true occurrence dates, the Department of Public Safety and the state risks reporting obligations in the wrong fiscal accounting period. Proper recognition of the applicable accounting period is particularly crucial for the disaster assistance program, because many of the state's disasters have occurred near the end of its fiscal periods and the activities overlap year-end dates.

We identified many reimbursements that included obligations of fiscal year 1998 that were posted to fiscal year 1999. We estimated that approximately \$13 million of disaster assistance expenditures were posted to an incorrect fiscal year. In addition, the Department of Public Safety did not have a process to effectively measure liabilities for construction retention fees or any advances provided to subgrantees as of the end of the state's fiscal year.

For financial statement reporting purposes, the Governmental Accounting Standards Board recently released Statement 33, which specifies the accounting and reporting for these types of grants. The statement goes into effect for periods beginning after June 15, 2000. However, the department's current practices do not comply with the newly published criteria and, as such, will have to be modified to ensure reporting in accordance with generally accepted accounting principles.

Recommendation

- *The Department of Public Safety should work with the Department of Finance on establishing proper accounting and reporting of disaster assistance expenditures.*

4. The Department of Public Safety inappropriately awarded approximately \$50,000 to subrecipients.

The Division of Emergency Management inappropriately authorized grants and/or issued payments of \$2,283 for costs that were not allowable under the Disaster Assistance Program. The Public Assistance Program has guidelines that define the types of usage and costs that are eligible for reimbursement. Inspectors from the Federal Emergency Management Agency (FEMA), along with state inspectors, review damaged sites and award funding for specific costs by completing damage survey reports. However, we found four instances of costs that did not fall within the FEMA guidelines, but were included as reimbursable items for various subrecipients.

- We found that the city of Moorhead was erroneously granted an additional \$807 for increased utility costs. Inspectors calculated the city was owed a reimbursement of \$21,067 for increased utility costs incurred during its emergency operations, by comparing March 1996 activity to the activity of March 1997. However, in the calculation, inspectors mistakenly added a decreased amount of consumption, of \$393, as an increase to the award amount. Further, inspectors did not offset increased utility consumption with any related decreases in utility costs.

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- The department also over-awarded \$776 to the city of Herman for duplicated engineering costs claimed on two separate damage survey reports. One damaged survey was funded entirely with federal funds, while the other was funded with 75 percent federal funds.
- We observed that Independent School District 595 was over-awarded \$200 due to a data input error on a damage survey report.
- The department paid \$500 to the city of Lake Park for an ineligible project. This project did not exceed the \$1,000 eligibility threshold required by federal regulations. The project was funded with \$375 of federal funds and \$125 of state funds.

We also found that the Division of Emergency Management inappropriately disbursed \$7,454 of state funds and \$39,980 of federal funds. Generally, the department will only reimburse a subrecipient for 90 percent of its actual costs incurred and will withhold the state match until it receives certified documents of actual costs from the subgrantees and other required closeout documentation. However, our testing revealed two instances in which the department disbursed 100 percent of estimated allowable costs prior to receiving certified cost and project completion documents.

- In one case, the department advanced the total estimated federal award to the State of Minnesota's Department of Military Affairs prior to properly certifying actual costs. The Department of Military Affairs later disclosed that actual costs were \$2,707 less than the estimate. The Division of Emergency Management has not yet requested that these funds be returned.
- In the other instance, we determined that the department issued \$7,454 of state match prior to obtaining all required closeout documentation from the city of Lake Park. Upon disbursing the funds, the department considered the projects to have been completed. However, it did not obtain proper certification that the subgrantee completed its projects or incurred allowable costs. Because the city only received funding for small projects, federal guidelines allowed for the lump sum disbursement of the federal share. However, state guidelines require documentation to support the disbursements. Until the city submits documentation of allowable costs, it is not possible to determine how much of the state funds would be allowable. Further, if the city of Lake Park failed to complete the small projects, it also may not be eligible for the federal grant of \$37,273. As such, the department should obtain the necessary documentation from the city of Lake Park and, if necessary, collect any over-paid awards, in addition to the \$500 mentioned previously.

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Recommendations

- *The Department of Public Safety should work with the Federal Emergency Management Agency to make necessary award adjustments and recover amounts overpaid to subrecipients.*
- *The department should review its subgrantees' documentation for eligible costs and contact FEMA when approved reimbursements appear to be questionable.*
- *Prior to releasing final payments of disaster assistance, the department should obtain proper certifications of completed projects and the actual costs incurred.*

5. The Department of Public Safety did not ensure that subrecipients complied with project completion deadlines.

The Department of Public Safety did not follow-up with subrecipients to ensure that federally assisted projects were completed timely, or that time extensions were requested. Federal regulations allow subrecipients six months to complete debris clearance and emergency work, and eighteen months to complete permanent work. The regulations also allow for time extensions. The state's administrative plan and procedures for the Public Assistance program provided that the Division of Emergency Management would send letters to subrecipients reminding them of project completion deadlines and to submit requests for time extensions if necessary. We found that the division did not provide such communication.

As evident in Table 1-2, the department had many active projects relating to older disasters. The vast majority of projects related to these disasters were to have been completed prior to October 1998. However, many of these projects lacked time extensions or evidence that the project had been completed. In fact, our testing revealed that approximately 52 percent of the projects lacked adequate closeout documentation or time extensions.

We believed that the Division of Emergency Management lacked a computerized system, or other efficient methods to track the status of its subrecipients' projects. Monitoring the status of projects was a laborious task for the few individuals assigned to the disaster assistance programs. A more efficient tracking system would enable the Division of Emergency Management to send out timely notifications, determine if projects were completed, and determine if time extensions were received.

Recommendations

- *The Department of Public Safety should follow-up on its subrecipients to ensure that closeout documentation is submitted timely or that time extensions are filed.*
- *The department should also consider implementing a computerized database system to track subrecipients and the status of disaster projects.*

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6. The Department of Public Safety did not adequately monitor its subrecipients.

The Department of Public Safety did not ensure that Single Audits were performed for all required subrecipients. The department also did not adequately follow-up on crosscutting findings, nor issue management decisions to subrecipients' audit findings.

As part of the Department of Public Safety's responsibility for administering the Disaster Assistance Program, the department is required to ensure that subrecipients that receive \$300,000 or more in federal awards have a Single Audit. The Department of Public Safety, however, did not obtain audit reports from all of its required subrecipients. In addition, the department did not adequately ensure that corrective actions occurred for all program and crosscutting findings. Finally, the department did not issue effective management decisions on audit findings of its subrecipients. Federal regulations state that a management decision should be issued within six month of receiving an audit report to indicate whether the audit finding is sustained, the reasons for the decision, and the expected auditee action.

Recommendation

- *The Department of Public Safety should ensure that all required audits are performed on subrecipients and that prompt corrective action is taken for any relevant audit findings identified.*

7. PRIOR FINDING NOT RESOLVED: The Department of Public Safety did not submit required documents and reports to the Federal Emergency Management Agency.

The Department of Public Safety's Division of Emergency Management did not submit quarterly progress reports to the Federal Emergency Management Agency (FEMA). The division also did not submit a required *Outlay Report and Request for Reimbursement for Construction Programs* to FEMA. Both reports are required, under the Code of Federal Regulations, to be submitted to the FEMA regional director. The division required that its sub-grantees report quarterly on the progress of their projects, so that it could complete the reports to be submitted to FEMA. However, the Division of Emergency Management did not ensure that sub-grantees submitted quarterly reports, nor did it track any reports that were submitted. As a result, the division has never submitted these reports to FEMA.

The Division of Emergency Management claimed that FEMA did not enforce the reporting requirements. However, the division did not receive written waivers, as recommended during our previous audit of the department. Further, the federal Office of the Inspector General's Federal Emergency Management Agency recently released a semi-annual report to Congress, which found that:

FEMA did not enforce the requirement for its grantees to submit "Financial Status Reports," or similar reports of grant financial activities at any time other than grant closeout. FEMA used other sources of data on grantee and subgrantee expenditures in preparing its financial statements. The alternative data, however, did not produce complete and accurate financial information on the total actual expenditures of its subgrantees.

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Further, the Division of Emergency Management has not revised its hazard mitigation administrative plan, nor submitted this plan to the FEMA regional director since 1995. Federal regulations require that the state submit its administrative plan, with any amendments, following each major disaster declaration. Three disaster declarations involving hazard mitigation have occurred in Minnesota since 1996. The administrative plan should include procedures for notifying potential applicants, assisting FEMA in determining eligibility, compliance with audit requirements, processing advances of funds and reimbursement, and determining staffing and budget requirements.

Recommendations

- *The Department of Public Safety should submit quarterly progress reports and the Outlay Report and Request for Reimbursement for Construction Programs Report to the FEMA regional director.*
- *The department should also update the state's Administrative Plan and ensure that it submits the plan to FEMA for review and approval following each major disaster.*

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 March 5, 1999.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: January 8, 1999

Report Signed On: March 1, 1999

Status of Prior Audit Issues As of January 8, 1999

February 27, 1998, Legislative Audit Report 98-10 examined the department's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the year ended June 30, 1997. The scope included the collected revenues from motor vehicle registration taxes and motor vehicle excise taxes. In addition, for Single Audit objectives, we audited the Federal Disaster Assistance Program. We identified eight written findings in that report. Five were related to the collection and reporting of motor vehicle tax revenues, while three were related to non-compliance with federal requirements of the Disaster Assistance Program.

The department implemented our recommendations for four of the five reported findings related to the collection and reporting of motor vehicle tax revenues. For the fifth issue, the department is still working to implement a comprehensive disaster recovery plan for its business operations. The department responded that it is still hopeful to finalize its efforts of implementing a plan by October 1999.

The department also improved its cash management practices, which we found to be a weakness of the Disaster Assistance Program. However, the department has not yet submitted quarterly status reports to the federal Emergency Management Agency (see current Finding 7). In addition, there still exists some concerns over the department's ability to timely review and process documents related to public assistance projects (see current Finding 5).

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on 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.

MINNESOTA DEPARTMENT OF PUBLIC SAFETY



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March 1, 1999

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

Dear Mr. Nobles:

At the audit exit conference on February 19, 1999, we were provided a copy of the draft audit report for the Department of Public Safety. We received a copy of the revised draft on February 23, 1999. Our written response to the findings and recommendations are in the order presented in the draft report.

Katherine Burke Moore will be responsible for finding one and two. Daniel Boytim will be responsible for finding six and will share responsibility with Dave Lundberg for finding three. Dave Lundberg will be responsible for finding four and five.

FINDING NUMBER ONE:

The Department of Public Safety did not ensure that deposits of motor vehicle taxes were entered accurately and timely into the state's accounting system.

Recommendations:

The department should establish procedures to ensure that receipts are properly and promptly entered into the accounting system.

The department should consider using an electronic method to transfer necessary deposit information to enable prompt postings of revenue.

Response:

The inaccuracy of the entries resulted from use of the wrong dates when posting the receipts. This appears to be a training issue. Public Safety will provide more training for the deputy registrars in our pilot project. In addition we will be more vigilant in assuring that the cash receipts are posted in the proper accounting period.

The timeliness of the posting is a more complex problem to resolve. Historically, the Department of Finance had always entered Public Safety's cash receipts through FY96. The timeliness of the entry has been slow because although the deputy registrars make daily deposits, the receipts are mailed to St. Paul before posting, resulting in delay. The tables on the Legislative Audit report shows a delay of 4 – 12 days in 1996 and a loss of \$800,000 in investment income. This loss was brought to the attention of the Departments of Finance and Public Safety in the FY96 audit.

The departments met in FY97 to discuss alternatives for addressing the problem. Public Safety did not have the resources to take over entry nor would that alternative significantly reduce the delay time.

Public Safety took the following steps to alleviate this problem: (1) Initiated a pilot project where the five largest deputy registrars were asked to enter their own cash receipts through MAPS. (2) Public Safety staff began entering the cash receipts of 32 additional deputies. The success of the pilot project can be seen in Table 1-4. In FY97 the average delay was 4 – 5 days. In FY98 the average delay was 0 – 1 day. In FY98 the loss of investment income was significantly reduced with the pilot project and the Public Safety posting.

Although we have seen improvements, neither alternative eliminates the delay or loss. This pilot access has a few systemic problems. The deputies are dialing up to the mainframe and then attempting to log on to MAPS. This access is cumbersome and not always successful. Public Safety's posting of 32 other deputy registrar's cash receipts also has delays as we must wait for receipt of the report from the deputy in the mail. We recognize the solution is to allow electronic transfer of the deputy reports on the same day as the deposit. The department has been unable to acquire the resources to allow electronic transfer. We will continue to strive for the resources to achieve electronic transfer. As we move toward that goal, we will continue to evaluate and adjust the pilot and Public Safety programs to reap the greatest benefit from them.

FINDING NUMBER TWO:

The Department of Public Safety did not deposit all receipts daily, as required by Minnesota Statute.

Recommendations:

The department should deposit funds in accordance with statutory time frames or request an exemption from the requirements.

Response:

Due to the high transaction volume of incoming checks in the prorated office, for 11 weeks of every year Prorate is in noncompliance of the 24-hour check deposit requirement. The remaining weeks of the year, Prorate is able to meet the check deposit requirement. To help improve on the 24-hour compliance requirement an order has been placed for another cash register point of sale software program (we currently have only 1 cash register with the required software); this additional equipment will allow Prorate to process and deposit the checks. In addition, the feasibility of hiring a 9-week emergency employee during our high volume months will be researched.

Our intent is to comply with statute; however, the noncompliance issue is due to the workload of our office. Although we expect that these measures will improve the timeliness of the deposits, if they do not bring us into compliance with the statute, DPS will seek an exemption from MS 16A.275 during our renewal period.

FINDING NUMBER THREE:

The Department of Public Safety did not establish proper and consistent accounting for disaster assistance expenditures and liabilities.

Recommendations:

The Department of Public Safety should work with the Department of Finance on establishing proper accounting and reporting of disaster assistance expenditures.

Response:

The department consistently used the grant administrator's approval date for entering disaster assistance payments. This may not have properly accounted for liabilities in the Minnesota Accounting and Procurement System (MAPS). The department did consistently account for disaster assistance expenditures.

The department finds it unusual the references to Governmental Accounting Standards Board Statement 33, which was issued after the end of the audit period. The department will take the statement into consideration on future accounting practices.

The Office of Fiscal and Administrative Services and Emergency Management Grant Administrators will work with the Department of Finance on establishing proper accounting and reporting of disaster payments.

FINDING NUMBER FOUR:

The Department of Public Safety inappropriately awarded approximately \$50,000 to subrecipients.

Recommendations:

The Department of Public Safety should work with the Federal Emergency Management Agency to make necessary award adjustments and recover amounts overpaid to subrecipients.

The department should review its subgrantees' documentation for eligible costs and contact FEMA when approved reimbursements appear to be questionable.

Prior to releasing final payments of disaster assistance, the department should obtain proper certifications of completed projects and the actual costs incurred.

Response:

- City of Moorhead - Erroneously granted an additional \$807 for increased utility costs.

The \$807 that is referenced, was found to have been a calculation error made by the inspector and was not caught during the review process. We will provide a letter to FEMA advising them of the error so that they can take the appropriate action.

- City of Herman - Duplication of \$776.

The two Damage Survey Reports (DSR) in question were large projects. One was 100% and all federal dollars provided. The other was 0% complete. The one that was 100% was paid in full and contained the \$776. We have placed a memo in the file to ensure that the \$776 is deducted from the large DSR yet to be closed out. In addition, the applicant did not claim the dollars twice in this closeout documentation.

- ISD 595 over-awarded \$200 due to a data input error on a damage survey report.

During the closeout review the documentation previously received along with the additional documentation provided are added together to determine the total cost to restore a damaged site. The \$200 is part of a large Damage Survey Report. Large Damage Survey Reports are generally based on estimates and the final approved amount is based on their total eligible actual costs to complete the project as described on the Damage Survey Report. In reviewing the Damage Survey Report we found that the \$200 error was based on the price per set of the item; therefore, it will be resolved at the time of closeout and adjusted at that time.

- City of Lake Park paid \$500 for an ineligible project.

FEMA policy allows grouping small buildings in a park facility and it appears that is what was done. The total cost to restore the buildings at the damaged site was \$6,000. We have discussed this matter with FEMA and the city of Lake Park to see if they could recall the circumstances. Because it has been five years, it is difficult to determine exactly what the situation is based on the documentation. As a result, it is not clear what appropriate action should be taken. Once the documentation is received from the applicant a better determination should be able to be made and if the Damage Survey Report was written inappropriately, corrective action will be taken.

Note: DR-1064 was the first disaster in Minnesota where the \$1,000 minimum Damage Survey Report was used. The determination of what consisted of a site and how the sites were grouped was still being tested.

- Department of Military Affairs.

An oversight was made when the dollars were disbursed. If the Damage Survey Report had been 100% complete at the time of the initial inspection, then it is appropriate to disburse 100% of the federal dollars. In this case; however, the work was not 100% complete and due to an oversight 100% of the federal dollars were disbursed. The state has not requested Military Affairs to return the \$2,707 because their project application has not been closed. A memo will be placed in the file to ensure that the \$2,707 is addressed at time of close out.

- Lake Park.

The \$37,275 paid to Lake Park was appropriate. FEMA provides the federal dollars in advance on all small projects.

The \$7,454 of state dollars was inappropriately disbursed prior to the Project Listing Form being received. We have contacted the city and they will provide the Project Listing Form and required supporting documentation within 30 days

FINDING NUMBER FIVE:

The Department of Public Safety did not ensure that subrecipients complied with project completion deadlines.

Recommendations:

The Department of Public Safety should follow-up on its subrecipients to ensure that closeout documentation is submitted timely or that time extensions are filed..

The department should also consider implementing a computerized database system to track subrecipients and the status of disaster projects.

Response:

The comments regarding follow up with the applicants on a timely manner including providing reminder letters is accurate. However, the Regional Program Coordinators did request assistance from the county directors at their regular meetings.

The biggest problem, was the fact the division was overwhelmed with disasters and did not have the time or personnel to prepare reminder letters in a timely manner. It should be pointed out; however, that a letter was sent in 1998 to all applicants in disasters 993, 1064, 1116, and 1151 requesting they either provide the Project Listing and its supporting documentation or a request for a time extension if the work was not done.

We are currently working on sending letters out on DR-1175.

In the future, when processing Sub-grant Agreements we will also prepare the six-month and 18 month reminder letters and place them in the file so they are ready to be sent out, if appropriate, at the proper time.

FINDING NUMBER SIX:

The Department of Public Safety did not adequately monitor its subrecipients.

Recommendations:

The Department of Public Safety should ensure that all required audits are performed on subrecipients and that prompt corrective action is taken for any relevant audit findings identified.

Response:

The Office of Fiscal and Administrative Services and Division of Emergency Management Federal Grant Managers will consult with the Department of Finance for direction on this finding. The department will develop and implement procedures to ensure the submission of subrecipients audits, the resolution of program and crosscutting findings and the issuance of management decisions to subrecipient's audit findings.

FINDING NUMBER SEVEN – PRIOR FINDING NOT RESOLVED:

The Department of Public Safety did not submit required documents and reports to the Federal Emergency management Agency (FEMA).

Recommendations:

FEMA did not enforce the requirements for its grantees to submit "Financial Status Reports", or similar reports of grant financial activities at any time other than grant closeout. FEMA used other sources of data on grantee and subgrantee expenditures in preparing its financial statements. The alternative data, however, did not produce complete and accurate financial information on the total actual expenditures of its subgrantees.

The Department of Public Safety should submit quarterly progress reports and the Outlay Report and Request for Reimbursement for Construction Programs Report to the FEMA regional director.

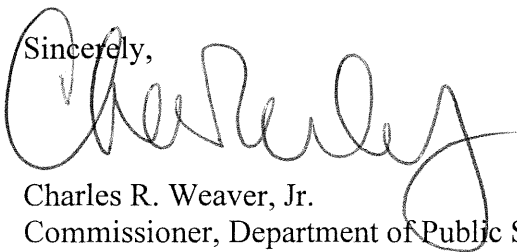
The department should also update the state's Administrative Plan and ensure that it submitted the plan to FEMA for review and approval following each major disaster.

Response:

With the enactment of the New Public Assistance Program and the National Emergency Management Information System that will support it, the Division should be able to provide quarterly reports to FEMA electronically using the Case Management File.

If you have any questions or concerns, feel free to contact me.

Sincerely,



Charles R. Weaver, Jr.
Commissioner, Department of Public Safety

Cc: Mancel Mitchell
Paul Aasen
Frank Ahrens
Katherine Burke Moore
Dave Lundberg