



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Public Safety
Fiscal Year Ended June 30, 2003



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

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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
David Polisenno, CPA, CISA	Audit Manager
Tony Toscano	Auditor-in-Charge
George Deden, CPA	Senior Auditor
Kathy Fisher, CPA	Senior Auditor
Connie Stein	Senior Auditor
Sally Tefera	Auditor

Exit Conference

We discussed the finding and recommendation with the following representatives of the Department of Public Safety at the exit conference held on March 4, 2004:

Lynn Willenbring	Acting Assistant Commissioner
Frank Ahrens	Director, Fiscal & Administrative Services
Robert Erickson	Accounting Supervisor
Daniel Boytim	Accounting Supervisor
Jon Huspek	Accounting Officer

Report Summary

Key Finding and Recommendation

The Department of Public Safety did not have an appropriate process to determine year-end accrued liabilities for inclusion in the state's financial statements. As a result, it overstated the June 30, 2003, liability for its Federal Fund activities by as much as \$25 million. We recommended that the Department of Public Safety work with the Department of Finance to ensure that it properly calculates year-end accrued liabilities.

Management letters address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally funded programs. The scope of our work in individual agencies is limited. During the fiscal year 2003 audit, our work at the Department of Public Safety included motor vehicle registration and excise tax revenues, which totaled approximately \$606 million, and Federal Emergency Management Assistance (FEMA) Public Assistance Grants (CFDA # 83.544), which totaled approximately \$26 million. The department's response is included in the report.



Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Rich Stanek, Commissioner
Department of Public Safety

We have performed certain audit procedures at the Department of Public Safety as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit work at the Department of Public Safety included motor vehicle registration and excise tax revenues, which totaled approximately \$606 million. We performed certain audit procedures as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 2003, were free of material misstatement. We emphasize that this has not been a comprehensive audit of the Department of Public Safety.

We have also reviewed certain department procedures related to the state's compliance with certain requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to the department for the year ended June 30, 2003. We performed certain audit procedures on the public assistance grants as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs. For fiscal year 2003, the department expended Federal Emergency Management Assistance (FEMA) Public Assistance Grants (CFDA # 83.544) totaling approximately \$26 million.

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

Conclusions

Our December 5, 2003, report included an unqualified opinion on the State of Minnesota's basic financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 2003. In accordance with *Government Auditing Standards*, we have also issued our report, dated December 5, 2003, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements

Department of Public Safety

applicable to each major federal program and internal control over compliance in accordance with OMB *Circular A-133*.

Our work at the Department of Public Safety identified the following internal control weakness:

1. The Department of Public Safety did not have an appropriate process to determine year-end accrued liabilities for inclusion in the state's financial statements.

The department did not properly calculate its June 30, 2003, accrued liability from open encumbrance balances. The Department of Finance provided state agencies with a listing of unliquidated encumbrances greater than \$100,000 as of September 8, 2003. It instructed the agencies to determine if any or all of the encumbrance amount related to an accrued liability as of June 30, 2003. An accrued liability exists if the related goods or services were received as of June 30, 2003, and the vendor was not paid as of the close of the fiscal year. The Department of Public Safety reported the entire unliquidated encumbrance amount identified on the report as a liability, instead of only that portion that related to a liability at June 30, 2003. As a result, the department overstated the accrued liability for its Federal Fund activities by as much as \$25 million.

Recommendation

- *The Department of Public Safety should work with the Department of Finance to ensure that it properly calculates year-end accrued liabilities related to unliquidated encumbrances.*

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 12, 2004.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 6, 2004

Report Signed On: March 9, 2004

**Status of Prior Audit Issues
As of February 6, 2004**

Legislative Audit Report 03-13, issued in March 2003 examined the motor vehicle registration and excise tax revenues collected by the Department of Public Safety. The audit also included compliance for the Public Assistance Grants (CFDA #83.544) for fiscal year 2002. The audit report contained one finding that related to subrecipient monitoring. The department implemented the recommendation associated with the finding.

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.



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Office of the Commissioner

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March 8, 2004

James R. Nobles
Legislative Auditor
Centennial Building
658 Cedar Street
Saint Paul, Mn 55155

Dear Mr. Nobles:

The Department of Public Safety (DPS) has the following response to the conclusions and recommendations of the draft 2003 Statewide Financial and Compliance Audit:

1. The Department of Public Safety did not have an appropriate process to determine year-end accrued liabilities for inclusion in the state's financial statements.

The department did not properly calculate its June 30, 2003, accrued liability from open encumbrance balances. The Department of Finance provided state agencies with a listing of unliquidated encumbrances greater than \$100,000 as of September 8, 2003. It instructed the agencies to determine if any or all of the encumbrance amount related to an accrued liability as of June 30, 2003. An accrued liability exists if the related goods or services were received as of June 30, 2003, and the vendor was not paid as of the close of the fiscal year. The Department of Public Safety reported the entire unliquidated encumbrance amount identified on the report as a liability, instead of only that portion that related to a liability at June 30, 2003. As a result, the department overstated the accrued liability for its Federal Fund activities by as much as \$25 million.

Recommendation

- *The Department of Public Safety should work with the Department of Finance to ensure that it properly calculates year end accrued liabilities related to unliquidated encumbrances.*

Response:

The Department of Public Safety agrees with the finding that errors were made in calculating the June 30, 2003 accrued liabilities from the open encumbrance balances.

The Department of Public Safety, Office of Fiscal & Administrative Services, will be establishing a series of meetings with it's fiscal staff, grant managers from HSEM, and with staff from the Department of

Finance to discuss ways to best identify, capture and report these year-end liabilities accurately and timely in future years.

Sincerely,

/s/ Rich Stanek

Rich Stanek
Commissioner