

O L A

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Public Safety
Fiscal Year 2005



March 9, 2006

06-08

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

Table of Contents

	Page
Report Summary	1
Management Letter	2
Status of Prior Audit Issues	4
Agency Response	5

Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
David Polisenno, CPA, CISA	Audit Manager
Tony Toscano	Auditor-in-Charge
Patrick Phillips, CPA	Auditor
Kimberly Schwagerl	Auditor

Report Summary

Audit Finding:

- The department incurred unallowable costs of \$10,000 for sales taxes it erroneously paid on certain purchases for the State Domestic Preparedness Equipment Program – CFDA #97.004. (Finding 1, page 3)

The audit report contained one audit finding relating to legal compliance. The department resolved the one finding included in our prior audit report

Audit Scope:

Programs material to the State of Minnesota's financial statements and to federal program compliance for fiscal year 2005

Selected Audit Areas:

- Motor vehicle registration tax
- Motor vehicle excise tax
- State Domestic Preparedness Equipment Program (CFDA #97.004)

Agency Background:

The Department of Public Safety collected motor vehicle registration and excise tax revenues, which totaled over \$1 billion in fiscal year 2005. Expenditures for the State Domestic Preparedness Equipment Program (CFDA #97.004) totaled approximately \$35.8 million for the year.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael Campion, 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, 2005. The scope of our audit work at the Department of Public Safety included motor vehicle registration and excise tax revenues, which totaled approximately one billion dollars. 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, 2005, 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, 2005. 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 2005, the department expended State Domestic Preparedness Equipment Program (CFDA¹ #97.004) totaling approximately \$35.8 million.

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

Conclusions

¹ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify programs.

Department of Public Safety

Our November 18, 2005, 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, 2005. In accordance with *Government Auditing Standards*, we have also issued our report, dated November 18, 2005, 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 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 legal compliance weakness:

Finding and Recommendations

1. **The Department of Public Safety incurred unallowable costs totaling \$10,000 for sales taxes it paid on certain purchases.**

The Department of Public Safety incurred unallowable costs of \$10,000 for the State Domestic Preparedness Equipment Program (CFDA #97.004) for state sales tax it erroneously paid. The department purchased two decontamination trailers on behalf of two volunteer fire departments and paid sales tax on those purchases. However, *Minnesota Statutes 272.021* exempts volunteer fire departments from paying sales tax on these purchases. Therefore, because the department purchased these items on behalf of the fire departments, it should not have paid sales tax on them either. Although sales tax is an allowable cost for federal programs, it is not allowable on these purchases because the state exempts sales tax collections on these items.

Recommendations

- *The Department of Public Safety should reimburse the federal government \$10,000 it claimed for unallowable state sales tax.*
- *The Department of Public Safety should ensure that it only pays sales tax on allowable purchases.*

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 9, 2006.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: January 17, 2006

Report Signed On: March 3, 2006

**Status of Prior Audit Issues
As of January 17, 2006**

Legislative Audit Report 05-11, issued in February 2005, examined the motor vehicle registration and excise tax revenues collected by the Department of Public Safety. The audit also included compliance for the Federal Motor Carrier Safety Administration Grants Program (CFDA #20.218) for fiscal year 2004. The audit report contained one finding that related to the department not properly allocating motor vehicle excise tax collections to recipient funds. The department implemented the recommendation associated with the finding.

Other Audit Reports

Legislative Audit Report 05-32, issued in May 2005, covered the three fiscal years ending June 30, 2004, for selected areas of the Department of Public Safety. The scope of this audit included employee payroll and travel reimbursements, professional/technical contracts, supplies and equipment, and Minnesota Statewide 911 Program activity. The audit report contained three audit findings relating to internal control and legal compliance. We did not follow up on the results of this audit report.

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 metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



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February 28, 2006

James R. Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles,

We were provided a copy of the draft audit report for the Department of Public Safety. This is our written response to findings and recommendations presented in the draft report.

Daniel E. Boytim, Office of Fiscal and Administrative Services will be responsible for this finding.

AUDIT FINDING

The Department of Public Safety incurred unallowable costs totaling \$10,000 for sales taxes paid on certain purchases.

Recommendations

- *The Department of Public Safety should reimburse the federal government \$10,000 it claimed for unallowable state sales tax.*
- *The Department of Public Safety should ensure that it only pays sales tax on allowable purchases.*

At the time of discovery of the erroneous sales tax payment a request was submitted to the Department of Finance for a sales tax refund. Unfortunately this sales tax refund was not processed by the end of the audit fieldwork. The refund of the unallowable sales tax has since been made and we are able to reimburse the federal government. As this grant has since been extended to March 31, 2006, the sales tax refund has been deducted from federal reimbursements since the end of the fieldwork.

The original purchaser into the Minnesota Accounting and Procurement System (MAPS) is now aware of their erroneous purchase entry. This awareness should ensure that the

Department of Public Safety only pays sales tax on allowable purchases.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Campion". The signature is fluid and cursive, with the first name "Michael" written in a larger, more prominent script than the last name "Campion".

Michael Campion
Commissioner, Department of Public Safety

Cc: Mary Ellison
Frank Ahrens
Kris Eide
Daniel E. Boytim