



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

**Department of
Public Safety**

**Selected Scope Internal Controls
and Compliance Audit**

July 2010 through March 2013

January 23, 2014

Report 14-02

FINANCIAL AUDIT DIVISION
Centennial Building – Suite 140
658 Cedar Street – Saint Paul, MN 55155
Telephone: 651-296-4708 • Fax: 651-296-4712
E-mail: legislative.auditor@state.mn.us
Web site: <http://www.auditor.leg.state.mn.us>
Through Minnesota Relay: 1-800-627-3529 or 7-1-1



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

January 23, 2014

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ramona Dohman, Commissioner
Department of Public Safety

This report presents the results of our internal controls and compliance audit of the Department of Public Safety for the period from July 1, 2010, through March 31, 2013. The objectives of this audit were to determine if the department had adequate internal controls for the financial operations we tested and complied with certain finance-related legal requirements.

We discussed the results of the audit with the department's staff at an exit conference on January 6, 2014. This audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager), Susan Kachelmeyer, CPA, CISA (Auditor-in-Charge), and auditors Lori Leysen, Sandy Ludwig, Natalie Mehlhorn, and Heather Varez, CPA.

We received the full cooperation of the department's staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The quality of the Department of Public Safety's internal controls and the degree of compliance with finance-related legal requirements we tested were inconsistent. In the areas where we conducted audit work, we concluded the following:

- **Motor Vehicle Receipts:** The department generally had adequate internal controls to ensure it collected, deposited, and accurately recorded motor vehicle receipts; however, it had some internal control weaknesses and instances of noncompliance.
- **Emergency Communication Networks Division:** The department did not have adequate internal controls in its Emergency Communication Networks Division to ensure it collected and deposited all receipts and accurately paid and recorded related expenditures. The division also had some instances of noncompliance with state contract requirements.
- **Payroll for the State Patrol and Bureau of Criminal Apprehension divisions:** The department did not have adequate internal controls over payroll for employees in its State Patrol and Bureau of Criminal Apprehension divisions to ensure the payments were accurate and authorized, and it had some instances of noncompliance for some payroll transactions.

The department did not fully resolve two of the three prior audit findings relevant to this audit from the November 2007 audit¹ or two of two findings from the May 2005 audit.²

Findings

- The Department of Public Safety did not adequately manage its business risks or monitor the effectiveness of its internal controls. ([Finding 1, page 9](#))

¹ Office of the Legislative Auditor's Financial Audit Division Report 07-29, *Department of Public Safety*, issued November 1, 2007.

² Office of the Legislative Auditor's Financial Audit Division Report 05-32, *Department of Public Safety*, issued May 26, 2005.

- The Department of Public Safety did not have internal controls to ensure it accurately allocated motor vehicle excise taxes in compliance with state statute. ([Finding 2, page 10](#))
- The Department of Public Safety had several significant internal control weaknesses in its motor vehicle tax operations. ([Finding 3, page 11](#))
- The Department of Public Safety had several internal control and compliance weaknesses in its Emergency Communication Networks Division operations. ([Finding 4, page 13](#))
- The Department of Public Safety did not adequately monitor some of its payroll transactions. ([Finding 5, page 16](#))

Audit Objectives and Scope

Objectives

- Internal controls
- Legal compliance

Period Audited

July 1, 2010, through March 31, 2013

Programs Audited

- Driver and motor vehicle services receipts
 - 911 emergency services financial activity
 - Selected payroll expenditures for the State Patrol and Bureau of Criminal Apprehension divisions
-

Department of Public Safety

Agency Overview

The Department of Public Safety defines its mission as the protection of Minnesota residents by promoting safer communities through prevention, preparedness, response, recovery, education, and enforcement. The department works with local, state, and federal law enforcement, emergency response agencies, and public, private, and nonprofit organizations throughout the state to support the goal of keeping Minnesota safe. Among the services provided by the department are:

- conducting criminal investigations and forensic science analysis;
- administering driver and vehicle services;
- coordinating emergency planning and response for disasters and acts of terrorism;
- providing advocacy and financial assistance to crime victims;
- promoting safety on roadways and reducing traffic injuries and fatalities;
- administering justice assistance and crime prevention grant programs; and
- administering the statewide 911 program.

Ramona Dohman has served as commissioner of the Department of Public Safety since March 2011. To fund its operations, the department receives direct appropriations from the General Fund and several special revenue funds, as well as federal grants and dedicated receipts from various license and registration fees.³

Table 1 identifies motor vehicle receipts by tax type and fund for fiscal years 2011, 2012, and 2013.

³ Department of Public Safety's agency profile from the Department of Management and Budget's Web site, 2012-13 Biennial Budget Background, November 29, 2010, pages 4 and 109.

Table 1
Department of Public Safety
Motor Vehicle Receipts
By Tax Type, Fund, and Fiscal Year

Tax Type and Fund	Fiscal Years ¹		
	2011	2012	2013 ²
Motor Vehicle Excise Tax (net of refunds)			
General ³	\$ 29,956,819	\$ (538,283)	\$ 2,596,486
Highway Users Tax Distribution	276,092,814	335,350,508	357,042,497
Transit Assistance	<u>20,186,400</u>	<u>22,356,701</u>	<u>23,610,156</u>
Total	<u>\$326,236,033</u>	<u>\$357,168,926</u>	<u>\$383,249,139</u>
Motor Vehicle Registration Tax (net of refunds)			
General	\$ 618,475	\$ 621,315	\$ 623,915
Highway Users Tax Distribution	<u>557,174,789</u>	<u>579,590,363</u>	<u>626,910,914</u>
Total	<u>\$557,793,264</u>	<u>\$580,211,678</u>	<u>\$627,534,829</u>
All Other Motor Vehicle Taxes (various funds)	<u>\$128,044,907</u>	<u>\$124,112,191</u>	<u>\$120,367,343</u>

¹ The state's fiscal year is July 1 through June 30.

² Fiscal year 2013 includes transactions through July 31, 2013, related to fiscal year 2013.

³ *Minnesota Statutes* 2012, 297B.09, Subd. 1(f), changed the allocation of motor vehicle excise taxes. Starting in fiscal year 2012, motor vehicle excise tax receipts were no longer allocated to the state's General Fund. The General Fund's negative amount for fiscal year 2012 is due to refunds related to prior year's receipts. For fiscal year 2013, the department erroneously allocated some of the motor vehicle taxes to the General Fund. See Finding 2 for further explanation of this error.

Source: The state's accounting system.

Emergency Communication Networks Division

The department's Emergency Communication Networks Division collected revenue for the Emergency Communication Networks by assessing 911 fees on various telecommunication services.⁴ The department assesses these fees monthly on each line.⁵ During fiscal year 2013, the fees collected by the department included the 911 fee of \$.80, Telecommunication Access Minnesota fee of \$.06, and the Minnesota Telephone Assistance Plan fee of \$.06, for a total of \$.92 per telecommunications line.

Minnesota Statutes 2012, 403.11, states that the department is to use these fees "to cover the costs of ongoing maintenance and related improvements for . . . 911 emergency telecommunications service, to offset administrative and staffing costs of the commissioner related to managing the 911 emergency telecommunications service program, to make distributions [to local governments to enhance 911

⁴ *Minnesota Statutes* 2012, Chapters 403.11, 403.113, and 403.15.

⁵ A telecommunications line is defined as one wired land line, one wireless mobile line, or one VoIP or shared-line system with multiple number connections.

service] provided for in section 403.113, and to offset the costs, including administrative and staffing costs, incurred by the State Patrol Division of the Department of Public Safety in handling 911 emergency calls made from wireless phones.” The department retains a portion of the fees for the division’s operating costs to administer the program, such as payroll, supplies, rent, and travel.

The department also supports the Allied Radio Matrix for Emergency Response Program, a statewide radio communication system that is used by emergency responders to communicate during emergencies and disasters.⁶ The program, established in Minnesota in 2004, is administered in accordance with the Statewide Radio Board. The system can serve every city, county, state agency, tribal government, and nongovernment public safety entity in the state. As authorized by state statute, the state issued revenue bonds (\$42,205,000 in 2008, \$60,510,000 in 2009, and \$60,380,000 in 2011) to construct the system.⁷ The Allied Radio Matrix for Emergency Response Program’s operating, maintenance, and debt service costs are paid for out of the 911 special revenue accounts. The department transfers about \$23 million per year of user fee receipts to the Department of Management and Budget to cover its debt service obligations.

Table 2 shows some of the division’s financial activity by account type for fiscal years 2011, 2012, and 2013.

⁶ *Minnesota Statutes* 2012, Chapter 403.39, provides that municipalities may establish a regional radio board to implement, maintain, and operate regional and local improvements to the statewide, shared, trunked radio, and communication system.

⁷ *Minnesota Statutes* 2012, 403.275, State 911 Revenue Bonds.

Table 2
Department of Public Safety
Emergency Communication Networks Division
Selected Receipts, Expenditures, and Transfers¹
By Account Type and Fiscal Year

	Fiscal Years		
	<u>2011</u>	<u>2012</u>	<u>2013²</u>
User Fee Receipts	<u>\$61,966,850</u>	<u>\$61,866,605</u>	<u>\$63,263,821</u>
Expenditures			
Payments to Local Governments	\$13,995,107	\$17,303,935	\$19,719,041
Payments to Telecommunication Companies	12,905,746	11,876,071	12,519,780
Payments to Minnesota State Patrol	838,942	716,786	594,726
Purchased Services	1,154,129	1,022,876	1,026,452
Emergency Communication Networks			
Division's Payroll	656,598	609,842	719,121
Other Expenditures	486,211	354,020	678,872
Transfers to the Department of Transportation ³	<u>40,449,912</u>	<u>30,183,827</u>	<u>18,526,687</u>
Total Expenditures and Transfers	<u>\$70,486,645</u>	<u>\$62,067,357</u>	<u>\$53,784,679</u>

¹ The 911 Emergency Services Fund also receives bond proceeds and transfers money to the Department of Management and Budget for debt service payments.

² Fiscal year 2013 includes transactions through July 31, 2013, related to fiscal year 2013.

³ The department transfers bond proceeds to the Department of Transportation for the construction and maintenance of equipment for the Allied Radio Matrix for Emergency Response Program, as authorized by *Minnesota Statutes* 2012, 403.36, Subd. 1e.

Source: The state's accounting system.

Department-wide Payroll

One of the department's largest expenditure areas is its payroll. Table 3 shows the department's payroll expenditures by type for fiscal years 2011, 2012, and 2013.

Table 3
Department of Public Safety
Payroll Expenditures
By Type and Fiscal Year

Payroll Expenditure Type	Fiscal Years		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Regular Payroll ¹	\$149,205,863	\$144,752,589	\$149,942,408
Overtime/Premium	9,136,588	8,990,276	8,376,813
Separation/Early Retirement	3,580,631	3,780,900	4,016,010
All Other Payroll ²	<u>1,691,726</u>	<u>2,215,718</u>	<u>1,831,499</u>
Total	<u>\$163,614,808</u>	<u>\$159,739,483</u>	<u>\$164,166,730</u>

¹ Regular payroll includes typical payments to employees for hours worked and paid time off for vacation, sick leave, and holidays.

² All other payroll includes payments for unemployment and workers' compensation.

Source: The state's accounting system.

Objectives, Scope, and Methodology

Our selected scope audit of the Department of Public Safety's motor vehicle receipts, Emergency Communication Networks Division's receipts and expenditures, and selected employee payroll transactions (for the State Patrol and the Bureau of Criminal Apprehension) focused on the following audit objectives for the period July 1, 2010, through March 31, 2013:

- Were the department's internal controls adequate to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal provisions, and created reliable financial data?
- For the items tested, did the department comply with significant finance-related legal requirements?
- Did the department resolve prior audit findings related to the scope of this audit?⁸

To meet the audit objectives, we gained an understanding of the department's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. In addition, we examined samples of financial transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

After analyzing the department's payroll activity, we narrowed our audit focus to higher risk payroll costs, such as overtime and shift differential payments. Because most of these higher risk transactions occurred in the State Patrol and Bureau of Criminal Apprehension divisions, we limited our detailed testing to those two divisions to determine whether they had adequate internal controls to ensure that they accurately paid the employees and accurately recorded the activity in the state's accounting system.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal control and compliance. We used, as our criteria to evaluate agency controls, the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring

⁸ Office of the Legislative Auditor's Financial Audit Division Report 07-29, *Department of Public Safety*, issued November 1, 2007 and Report 05-32, *Department of Public Safety*, issued May 26, 2005.

Organizations of the Treadway Commission.⁹ We used state laws, regulations, and contracts, as well as policies and procedures established by the Department of Management and Budget and the department's internal policies and procedures as evaluation criteria over compliance.

Conclusion

The quality of the Department of Public Safety's internal controls and the degree of compliance with finance-related legal requirements we tested were inconsistent. In the areas where we conducted audit work, we concluded the following:

- **Motor Vehicle Receipts:** The department generally had adequate internal controls to ensure it collected, deposited, and accurately recorded motor vehicle receipts; however, it had some internal control weaknesses and instances of noncompliance.
- **Emergency Communication Networks Division:** The department did not have adequate internal controls in its Emergency Communication Networks Division to ensure it collected and deposited all receipts and accurately paid and recorded related expenditures. The division also had some instances of noncompliance with state contract requirements.
- **Payroll for the State Patrol and Bureau of Criminal Apprehension divisions:** The department did not have adequate internal controls over payroll for employees in its State Patrol and Bureau of Criminal Apprehension divisions to ensure the payments were accurate and authorized, and it had some instances of noncompliance for some payroll transactions.

The department did not fully resolve two of the three prior audit findings relevant to this audit from the November 2007 audit¹⁰ or two of two findings from the May 2005 audit.¹¹ We repeat those unresolved findings in this report's findings 4 and 5.

The following *Finding and Recommendations* provide further explanation about the exceptions noted above.

⁹ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

¹⁰ Office of the Legislative Auditor's Financial Audit Division Report 07-29, *Department of Public Safety*, issued November 1, 2007.

¹¹ Office of the Legislative Auditor's Financial Audit Division Report 05-32, *Department of Public Safety*, issued May 26, 2005.

Findings and Recommendations

The Department of Public Safety did not adequately manage its business risks or monitor the effectiveness of its internal controls.

Finding 1

The department did not effectively manage the risks related to some key operational and finance-related responsibilities, including limiting employee access to its computer systems, reviewing high-risk receipt and expenditure transactions, and validating certain payroll and administrative expense transactions. These risks relate to safeguarding the department's assets, processing unauthorized transactions, accurately recording financial activity, and complying with finance-related legal requirements.

The department was aware of certain risks, had identified control activities within its policies to address those risks, and performed selected internal control monitoring functions. The department did not establish sufficient monitoring procedures to ensure that policies and procedures were being followed or to assess the effectiveness of some fundamental internal controls.

Since 2009, state statutes have required each agency head to design, implement, and maintain an effective internal control system to ensure the integrity of the state's financial transactions; the state's 2011 internal controls policy reinforces the requirement.¹² The statute and the state policy require documentation of internal control procedures over financial management activities, analysis of risks, and periodic evaluation of control procedures to ensure that the procedures are adequately designed, properly implemented, and functioning effectively. In July 2013, the department submitted to the Department of Management and Budget its plan to conduct comprehensive risk assessments for the areas of cash management, grant management, and data security by the end of fiscal year 2018.

Findings 2 through 5 identify deficiencies in the department's internal control procedures and specific noncompliance with finance-related legal requirements that were not prevented or detected by the department's current internal control structure. These deficiencies created an environment that increased the risk for significant errors or noncompliance to occur and not be prevented or detected by the department during the normal course of operations.

¹² *Minnesota Statutes* 2013, 16A.057, and Department of Management and Budget Statewide Operating Policy 0102-01, Internal Controls.

Recommendation

- *The department should clearly document and periodically review its risks, internal control activities, and monitoring functions related to its operational and compliance responsibilities.*

Finding 2

The Department of Public Safety did not have internal controls to ensure it accurately allocated motor vehicle excise taxes in compliance with state statute.

The department had some errors in its allocation of motor vehicle excise taxes to various funds. State statutes designate the allocation percentages.¹³ Starting in fiscal year 2013, legislative action changed the allocation formula. The department made the following errors in its allocation of the tax:

- During fiscal year 2013, the department inaccurately allocated about \$2.5 million of motor vehicle excise taxes. While the department set up an automated process to allocate these receipts into the appropriate funds, the department did not use that process in the cashiers' unit. As a result, as of July 19, 2013, it had erroneously recorded about \$2.5 million of the tax collected in fiscal year 2013 in the General Fund instead of in the Highway Users Tax Distribution Fund, the Metropolitan Area Transit Account, and the Greater Minnesota Transit Account (in the Highway Users Tax Distribution Fund), as required by state statute.¹⁴
- During fiscal year 2011, before the automated allocation process existed, the department mistakenly overallocated about \$2 million to the Metropolitan Area Transit Account in the Highway Users Tax Distribution Fund. The money should have remained in the General Fund.¹⁵

Because the department did not periodically review the accuracy of its allocations, it did not promptly detect and correct these errors.

Recommendations

- *The department should correct the errors identified in this finding and determine whether other allocation errors occurred.*

¹³ *Minnesota Statutes* 2012, Chapter 297B.09.

¹⁴ *Minnesota Statutes* 2012, Chapter 297B.09, Subd. 1(f), for activity on or after July 1, 2011.

¹⁵ *Minnesota Statutes* 2012 Chapter 297B.09, Subd. 1(e), for activity from July 1, 2010, through June 30, 2011.

- *The department should periodically review its allocations of motor vehicle receipts to ensure it complies with statutory allocation requirements.*

The Department of Public Safety had several significant internal control weaknesses in its motor vehicle tax operations.

Finding 3

The department did not adequately oversee its motor vehicle tax operations to ensure that staff reconciled financial transactions, timely recorded tax receipts in the state's accounting records, safeguarded assets, and monitored changes to the banking files that supported the motor vehicle tax activity.

- **Lack of reconciliations.** The department did not reconcile the motor vehicle tax activity for seven months from July 2011 through January 2012. The department did not reconcile the receipts collected and deposited to the information recorded in the state's accounting system. This occurred because the employee assigned to the reconciliation responsibilities did not have the information needed from the state's accounting system until seven months after its implementation.¹⁶ In addition, starting in January 2012 when information was available that allowed for the reconciliation to be done, the employee did not reconcile the prior months that had not been reconciled.

The department also had not reconciled receipts it recorded in its Explore subsystem to the state's accounting system; receipts in this subsystem totaled about \$40 million annually.¹⁷

Regular reconciliations performed by someone independent of the process are critical to ensure the accuracy and integrity of the accounting records. These reconciliations would have identified discrepancies between the department's accounting records, subsystems, and the state's accounting system and allowed management to make corrections and determine whether the discrepancies occurred due to error or fraud.

- **Untimely recording of receipts.** The department deposited motor vehicle excise tax or license tab registration receipts collected at the Town Square location daily into its local bank account, but failed to record the transactions in the state's accounting system when the deposit occurred. This resulted in the state not transferring money deposited in the department's bank account to the state's main treasury account in a timely manner. The department did not record 15 of the 30 deposits we tested in the state's accounting system until three to twelve business days after it

¹⁶ The state implemented a new accounting system on July 1, 2011.

¹⁷ The department uses the Explore subsystem to track fuel taxes and fees collected from multi-state trucking companies that are redistributed to other states.

had deposited the money in its local bank account. The dollar amounts of those deposits ranged from \$5,603 to \$237,272.

State policy requires that receipts be recorded in the accounting system on the same business day as the deposit.¹⁸ The state transfers money from local bank accounts into the state treasury based on the entries in the state's accounting system. The delays prevented the state from using the money to meet its cash flow needs or from earning investment income.

- **Lack of safeguarding assets.** The department did not safeguard assets held in the vault for the cashiers' office, located in downtown Saint Paul. The department's cashiers' office stored a bin in the vault for each front-counter cashier that contained license tabs and money envelopes with daily start up cash. The department did not ensure that each employee picked up their own bin from the cashier's office. The lack of accountability for these assets created an opportunity for an employee to commit and conceal fraud in the normal course of their duties.
- **Lack of monitoring of changes to computer banking files.** The department did not adequately monitor changes made by an employee of the Office of MN.IT Services to computer banking files. The department electronically exchanged computer files containing receipt information with the bank. The employee made the changes to adjust the files for discrepancies between receipts collected and other supporting documents. These adjustments caused discrepancies of about \$10,000 between the receipts collected and the amounts recorded in the state's accounting system.

Recommendations

- *The department should ensure that it reconciles all financial activity.*
- *The department should ensure that it records all receipts in the state's accounting system in a timely manner.*
- *The department should safeguard and control access to license tabs.*
- *The department should monitor changes made to computer banking files.*

¹⁸ Department of Management and Budget Policy 0602-03, *Recording and depositing receipts*.

The Department of Public Safety had several internal control and compliance weaknesses in its Emergency Communication Networks Division operations.

Finding 4

The department's Emergency Communication Networks Division had some weaknesses in its financial processes that resulted in noncompliance with state statutes and policies, inaccuracies in its accounting records, and some payment errors. The division collected certain telecommunication fees, which it used for various purposes, including to cover the costs of ongoing maintenance and related improvements for 911 emergency telecommunications service; to offset the department's administrative and staffing costs related to managing the 911 emergency telecommunications service program; and to provide aid to telecommunications companies and counties to support implementation, operation, maintenance, enhancement, and expansion of enhanced 911 service.¹⁹

The division had the following weaknesses:

- **Expired Contracts.** Ten of the twelve contracts we tested exceeded the five-year statutory contracting limit.²⁰ These contracts, required by state statute, provided for reimbursement to governmental agencies and telecommunications service providers to build and maintain components of the 911 system.²¹ In fiscal year 2013, those reimbursements totaled about \$36 million. Some of the contracts we examined expired as long as ten years ago.

In a 2005 audit report, we informed the department that it did not have signed contracts on file for all 911 program service providers.²² Although the department's response stated that it would systematically review, and update as needed, all 911 contracts, our testing of current contracts did not support that the department had taken those steps. By not having valid contracts in place, the department increased the risk that the responsibilities, duties, terms, and conditions agreed to between the parties would be misunderstood and unenforceable.

- **Incompatible duties and access to the state's accounting system.**^{23, 24} The division's accountant had incompatible duties in the deposit process. The employee had access to the receipt log and receipts and also recorded the deposits into the state's accounting system and the department's

¹⁹ *Minnesota Statutes* 2012, Chapters 403.11, 403.113, and 403.15.

²⁰ *Minnesota Statutes* 2012, Chapter 16C.05 Subd. 2(3)(b).

²¹ *Minnesota Statutes* 2012, Chapter 403.02, Subd. 7.

²² Office of the Legislative Auditor's Financial Audit Division Report 05-32, *Department of Public Safety*, issued May 26, 2005, Finding 3.

²³ Office of the Legislative Auditor's Financial Audit Division Report 07-29, *Department of Public Safety*, issued November 1, 2007, Finding 5.

²⁴ Office of the Legislative Auditor, Financial Audit Division Report 05-32, *Department of Public Safety*, issued May 26, 2005, Finding 2.

subsidiary records. State statute requires that the department assign incompatible duties to several employees or that it develop internal controls to mitigate the risk of error or fraud occurring without detection.²⁵

In addition, the employee had incompatible security roles in the state's accounting system, and the department had not implemented internal controls to mitigate the resulting increased risk of error or fraud. The security roles allowed the employee to perform incompatible expenditure functions (purchasing and receiving) and incompatible receipt functions (depositing and recording receipts and maintaining accounts receivable.) State policy requires that agencies limit individual employee access to only those systems, programs, applications, and data necessary for the individual to perform their job functions and responsibilities.²⁶ If agencies are unable to adequately separate incompatible duties, the policy requires them to, 1) develop and document internal controls to mitigate the risk that error or fraud will not be detected, and 2) monitor to ensure employees perform the internal controls as designed, and the internal controls are effective to reduce the risk. These controls typically include analysis and supervisory review of transactions processed by the employees with inappropriate access.

The policy also requires agency management to annually certify that they have reviewed and verified that employees have appropriate security roles. On its February 2013 certification, the department stated that it would implement internal controls by April 30, 2013, to mitigate the risks of incompatible employee access. However, as of May 21, 2013, the department had not implemented internal controls for this specific incompatible access or others that existed at the time of the certification.

- **Payments without approval.** The department did not always independently review or approve payments to telecommunication companies. Of the 88 payments to the eleven telecommunication providers we tested, 68 invoices or about \$3 million lacked evidence of approval. State policy requires agency management to review, approve, and document authorization of every invoice prior to processing.²⁷
- **Improper error correction.** The division's accountant did not properly correct an erroneous 911 aid payment. In August 2012, the department paid \$9,491.73 to Brown County that it should have paid to Carlton County. Rather than correcting the error through the state's accounting system and reissuing a payment to the proper county, the department

²⁵ *Minnesota Statutes* 2012, 16A.057, Subd. 1.

²⁶ Department of Management and Budget Statewide Operating Policy 1101-07, *Security and Access*.

²⁷ Department of Management and Budget Statewide Operating Policy 0803.01, *Payment Requests, Preparation and Approval*.

e-mailed the staff of Brown County in March 2013 and directed them to send a check in the same amount to Carlton County.²⁸ Department staff told us that they also had used this method to correct past erroneous payments. State policy requires that records of payments should be accurately recorded in the state's accounting system.²⁹

- **Lack of documentation.** The department did not always have sufficient documentation to support transfers it made to the Department of Transportation (totaling about \$89 million for fiscal years 2011 through 2013) to reimburse that department for costs related to the Allied Radio Matrix for Emergency Response Program.³⁰ In some cases, Public Safety staff made the transfers in advance of the Department of Transportation incurring costs. The interagency agreement between the two departments did not identify the required documentation needed by the Department of Public Safety as the basis for processing the transfers. Without documentation to support the amount of the transfer, the department of Public Safety cannot ensure that the accuracy of the transfer amount or the costs related to the transfer complied with the allowable uses of proceeds from the sale of State 911 revenue bonds.³¹
- **Inaccurate accounting categorization.** As of March 31, 2013, the department did not correctly categorize in the state's accounting system \$10.6 million of aid payments it made to counties through its 911 Public Safety Answering Point Program for fiscal years 2012 and 2013. The department had miscoded these payments (which were part of the \$28.9 million it paid to counties for this program) as grants rather than as aids.³² Because of the miscoding, the state's accounting system does not accurately represent the nature of these payments.

These internal control weaknesses and instances of noncompliance created an unacceptable high risk of error or fraud occurring without detection.

Recommendations

- *The department should review the financial operation of the Emergency Communication Networks Division to ensure that the division:*

²⁸ We obtained sufficient documentation to show that Brown County did pay the money it received in error to Carlton County.

²⁹ Department of Management and Budget Statewide Operating Policy 0803.01, *Payment Requests, Preparation and Approval*.

³⁰ *Minnesota Statutes* 2012, Chapter 403.20

³¹ *Minnesota Statutes* 2012, Chapter 403.275

³² An aid is distinguished from a grant because the payment is formula-based and no specific beneficiary is identifiable.

- *Has contracts for all 911 emergency telecommunications system activities as required by legal provisions;*
- *Eliminates or mitigates the risks resulting from the incompatible security access to the state accounting system;*
- *Independently reviews and approves all payments to telecommunication companies;*
- *Identifies and properly corrects payment errors;*
- *Works with the Department of Transportation to determine the documentation necessary to process transfers for the Allied Radio Matrix for Emergency Response Program; and*
- *Properly codes transactions in the state's accounting system.*

Finding 5

The Department of Public Safety did not adequately monitor some of its payroll transactions.

The department did not adequately ensure the integrity of hours reported on the state's payroll system for employees in its Bureau of Criminal Apprehension and State Patrol divisions.

The state pays its employees biweekly based on hours entered into its payroll system. Most employees used the state's self service time entry electronic time reporting system to enter their own hours worked, while others submitted their time through other means. Employees in the Bureau of Criminal Apprehension Division began using self service time entry before fiscal year 2011. Employees in the State Patrol Division started using self service time entry in September 2012.

Within the self service time entry system, each employee is assigned to a payroll department and each payroll department is assigned to a primary approver, typically the supervisor of the employees assigned to the payroll department. The state's self-service time entry policy states that the best control over the integrity of employees' payroll information is achieved when the employees complete their own timesheets and supervisors, who have direct knowledge of an employee's work, review and approve timesheets.³³ Each pay period, any self service time entries that do not meet these criteria are included on an exception report called the self service time entry audit report. The state's policy, reiterated in the department's policy, requires a comprehensive review of the report each pay

³³ Department of Management and Budget Policy PAY0017, Self Service Time Entry.

period or, if that is not possible, a review of a representative sample of exceptions each pay period. The review involves obtaining and documenting an explanation about why an employee did not complete their own time entry, or why a backup approver, instead of the primary approver, approved the time.

Before September 2012, employees in the State Patrol Division submitted their logs of hours worked to assigned timekeepers. These timekeepers told us they compared the logs to other documentation of hours worked and entered time into the state's payroll system based on their determination using those sources.

The department had the following weaknesses in time reporting for its Bureau of Criminal Apprehension and State Patrol divisions:

- The timekeepers reviewed and entered time reported by employees of the State Patrol Division without approval of the employees' supervisors. The department told us they did this because the supervisors had difficulty approving employees' time by the payroll processing deadlines. Because the timekeepers did not have direct knowledge of the employees' work, they relied on indirect evidence to review the hours reported. For example, they compared hours reported to the dispatchers records and vehicle computer records.

Our comparison of the time reported by 32 State Patrol employees (for six pay periods selected from the period July 2010 through March 2013) identified 13 instances where the hours reported on the employees' timesheets were not substantiated by the other records, such as dispatchers records. The department attributed the discrepancies to an incomplete archive of the dispatch records or not retaining e-mails between employees, supervisors, and primary approvers that explained the discrepancies.

- The department did not have documentation to show that it reviewed exceptions noted on the self service time entry audit reports for the Bureau of Criminal Apprehension and State Patrol divisions for the six pay periods we tested. In addition, some department staff told us they did not always review a biweekly payroll system report (the payroll register) that identifies payroll and expense reimbursement data used in processing employee paychecks, as required by state policy.³⁴ The policy requires agencies to document their review of the payroll register each pay period to verify that salary increases, special payments, earning codes, hours, pay rates, salary amounts, and any lump sum or retroactive payments are

³⁴ Department of Management and Budget Policy PAY0028, *Agency Verification of Payroll and Human Resources Transactions*.

correct. Although our prior audit had identified this weakness, the department had not resolved the issue.³⁵

- In six of the ten payroll departments we tested on the self service time entry audit report for January 29, 2013, the department did not have documented explanations for why some employees did not complete their own timesheets, as required by state policy.³⁶

Recommendations

- *The Department of Public Safety should review the self service time entry report each pay period to ensure that employees are completing their own timesheets, and the primary supervisors are approving the time.*
- *The department should require that supervisors approve employee timesheets or develop a process to retroactively approve timesheets.*
- *The department should retain adequate documentation necessary to substantiate all payroll transactions.*

³⁵ Office of the Legislative Auditor's Financial Audit Division Report 07-29, *Department of Public Safety*, issued November 1, 2007, Finding 1.

³⁶ Department of Management and Budget Policy PAY0017, Self Service Time Entry.



Office of the Commissioner

445 Minnesota Street • Suite 1000 • Saint Paul, Minnesota 55101-5100

Phone: 651.201.7160 • Fax: 651.297.5728 • TTY: 651.282.6555

www.dps.mn.gov

January 17, 2014

James T. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the findings in the Department of Public Safety Internal Controls and Compliance Audit for the period of July 2010 through March 2013. The Department of Public Safety is committed to improving internal controls and has prepared a written response to the findings and recommendations in your draft report.

Finding 1

The Department of Public Safety did not adequately manage its business risks or monitor the effectiveness of its internal controls

Recommendation

The department should clearly document and periodically review its risks, internal control activities, and monitor functions related to its operational and compliance responsibilities.

Response

The Department agrees that internal controls are important in managing business risk. The Department has taken important steps to identify risks, control activities, and monitoring, and will continue to work towards improving this process. The Department is in the process of reestablishing an Internal Audit function which will assist and lead this continual process.

Person Responsible: Larry Freund, CFO

Date Projected for Completion: Ongoing and continual process

Finding 2

The department of Public Safety did not have internal controls to ensure it accurately allocated motor vehicle excise taxes in compliance with state statute.

Recommendation

The department should correct the errors identified in this finding and determine whether other allocation errors occurred.

Response

The errors in this finding have been corrected. The agency reviewed receipts and have found no further errors.

Alcohol
and Gambling
Enforcement

Bureau of
Criminal
Apprehension

Driver
and Vehicle
Services

Emergency
Communication
Networks

Homeland
Security and
Emergency
Management

Minnesota
State Patrol

Office of
Communications

Office of
Justice Programs

Office of
Pipeline Safety

Office of
Traffic Safety

State Fire
Marshal

January 17, 2014
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Person Responsible: Thomas Henderson, Vehicle Services Program Director
Date Projected for Completion: Implemented

Recommendation

The department should periodically review its allocations of motor vehicle receipts to ensure it complies with statutory allocation requirements.

Response

The department has instituted new procedures in the cashier's unit in fiscal year 2014 to prevent allocation errors and the department reviews receipts monthly. DVS Program Managers will periodically review allocations.

Person Responsible: Thomas Henderson, Vehicle Services Program Director
Date Projected for Completion: June 30, 2014

Finding 3

The Department of Public Safety had several significant internal weaknesses in its motor vehicle tax operations.

Recommendation

The department should ensure that it reconciles all financial activity.

Response

The reporting functionality in SWIFT was not available for reconciliation for about seven months. Once the department was provided access to this data, the department has been performing monthly reconciliations.

A process has been put in place for the depositing of funds from the Explore System. Reconciliation of the funds takes place at the Treasury Office of the Department of Management and Budget.

Person Responsible: Dawn Olson, Support Services Program Director
Date Projected for Completion: Implemented

Recommendation

The department should ensure that it records all receipts in the state's accounting system in a timely manner.

Response

DVS recognizes that timely entry of receipts is a concern. Staff has been made aware of the state's policy regarding daily deposits. In addition, additional staff will be trained to serve as back-ups so that the reporting process function is completed on a daily basis.

Person Responsible: Dawn Olson, Support Services Program Director
Date Projected for Completion: March 1, 2014.

Recommendation

The department should safeguard and control access to license tabs.

Response

DVS implemented changes so that staff are only allowed to take their cash bag and license plate stickers, not the assets for other staff in the work unit. All supervisors, whose work units required cash bags and/or license plate tabs, were notified by their program director of the immediately effective change. Cashier's staff was also notified that only individual bags and/or tabs were to be given to the requesting individual. The Cashier's supervisor and lead worker will monitor this policy on a daily basis and report and violations to the Support Services Program Director.

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Person Responsible: Dawn Olson, Support Services Program Director
Date Projected for Completion: Implemented

Recommendation

The department should monitor changes made to computer banking files.

Response

The Department has changed its process and now receipts are automatically deposited, SWIFT is updated, and daily monitoring and reconciliation of computer banking files is performed.

Person Responsible: Thomas Henderson, Vehicle Services Program Director
Date Projected for Completion: Implemented

Finding 4

The Department of Public Safety had several internal control and compliance weaknesses in its Emergency Communications Networks Division operations.

Recommendations

The department should review the financial operations of the Emergency Communications Networks Division to ensure that the division:

Has contracts for all 911 Emergency Telecommunications Systems activities as required by legal provisions;

Response

Emergency Communications Network (ECN) enters into contracts with multiple telecommunication companies for services that previously did not change much from year to year. The pricing for these services is listed in tariffs filed with the Public Utilities Commissioner and is non-negotiable. In 2005 a process was implemented to update the services with these carriers through a Letter of Authority (LOA). These LOAs were used to keep these contracts current for additions or deletions of circuits to the 911 backbone and required signature by both parties.

Over the past year the state has embarked on an initiative to upgrade the 911 network to a Next Generation 911 (NG911) network. As a result, many of these contracts are undergoing revision. As of the second quarter of 2013, an independent consultant was hired and is thoroughly reviewing the network purchased and invoiced currently against the carrier's own records and against the NG911 network installed. A new contract is created based upon the completed audit. The scope of this project is quite large and is expected to take place over a two year period of time with a completion target date of December 31, 2015.

All other contracts for 911 Emergency Telecommunications Systems activities are up to date and kept up to date on a regular basis as services for these contracts are for competitive services and pricing changes and change frequently.

Person Responsible: Jackie Mines, ECN Director
Date Projected for Completion: December 31, 2015

Recommendation

Eliminates or mitigates the risks resulting from the incompatible security access to the state accounting system;

Response

In the first quarter of 2013 ECN Director worked with the DPS Internal Auditor to review 911 receipts process. Some changes to the process were recommended and the division implemented those processes immediately. ECN is in the process of working with Fiscal and Administrative Services (FAS) to identify additional changes in receipt and payment processing. Access of ECN accountant has been

January 17, 2014

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reviewed and changes to functions in SWIFT have been made however, due to size of staff additional internal controls will be reviewed to ensure that they are effective to reduce any risk.

Person Responsible: Jackie Mines, ECN Director

Date Projected for Completion: March 31, 2014

Recommendation

Independently reviews and approves all payments to telecommunication companies;

Response

Invoices are reviewed and approved by ECN Director on a monthly basis. The invoices to carriers that remained the same month over month were not individually reviewed each month but periodically checked. A new process is implemented for Director to review and sign each invoice for approval each month. Director will also review monthly SWIFT vendor report against invoices signed and approved to ensure only approved invoices are paid.

Person Responsible: Jackie Mines, ECN Director

Date Projected for Completion: Implemented

Recommendation

Identifies and properly corrects payment errors;

Response

The proper protocol for corrections for payments errors has been communicated both within ECN and FAS. All invoice corrections must first be approved by ECN Director and also FAS to mitigate this from happening in the future.

Person Responsible: Jackie Mines, ECN Director

Date Projected for Completion: Implemented

Recommendation

Works with the Department of Transportation to determine the amount of documentation sufficient to process transfers for the Allied radio Board Matrix for Emergency Response Statewide Communications System; and

Response

Due to the scope of this project MNDOT had to encumber funds for the building of multiple towers before the invoices were received and could be provided to ECN. This was not common practice but required at points in time when there were many towers scheduled at one time. Many of those towers were completed this past year. MNDOT agreed to provide invoices after the work was completed and has done so. ECN reviews all invoices to ensure the work is for the building of the backbone. Any discrepancies are identified and returned to MNDOT for review. MNDOT is supplying a quarterly maintenance and operating budget for ECN and the Statewide Radio Board and ECN initiates the transfer for the budget upon receipt of the quarterly update.

Person Responsible: Jackie Mines, ECN Director

Date Projected for Completion: Implemented

Recommendation

Properly codes transactions in the state's accounting system.

Response

Incorrect coding occurred after the migration from the MAPS accounting system to SWIFT accounting system due to the employee unfamiliarity with the new codes available. Employee has been made aware of the proper coding by FAS. FAS will continue to monitor to ensure proper coding of payments continues.

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Person Responsible: Larry Freund, CFO
Date Projected for Completion: Implemented

Finding 5

The Department of Public Safety did not adequately monitor some of its payroll transactions

Recommendation

The Department of Public Safety should review the self-service time entry report each pay period to ensure that employees are completing their own timesheets and the primary supervisors are approving the time.

Response

The department has a policy in place that requires review of self-service time entry reports each pay period. The department will work with division timekeepers to develop a monitoring system to insure compliance with department policy.

Person Responsible: Dan Boytim, Accounting Supervisor, Principal
Date Projected for Completion: June 30, 2014

Recommendation

The department should require that supervisors approve employee's timesheets or develop a process to retroactively approve timesheets.

Response

This recommendation applies to State Patrol Troopers time entry and approval. The Office of Fiscal and Administrative Services will work with State Patrol Management to have employee's supervisors approve employee's time or develop a process to retroactively approve timesheets.

Person Responsible: Dan Boytim, Accounting Supervisor, Principal
Date Projected for Completion: June 30, 2014

Recommendation

The department should retain adequate documentation necessary to substantiate all payroll transactions.

Response

This recommendation applies to State Patrol Time documentation records. The Office of Fiscal and Administrative Services will work with State Patrol Management to assure that adequate payroll documentation is available to substantiate all payroll transactions.

Person Responsible: Dan Boytim, Accounting Supervisor, Principal
Date Projected for Completion: June 30, 2014

Sincerely,



Ramona L. Dohman, Commissioner

Cc: Mary Ellison
Mark Dunaski
Larry Freund