

**DEPARTMENT OF MOTOR VEHICLES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the Department of Motor Vehicles for the year ended June 30, 2000 found:

- internal control matters that we consider reportable conditions;
- no instances of noncompliance with laws and regulations tested required to be reported under Government Auditing Standards; and
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System.

Reportable conditions are explained in detail in the section of this report titled “Internal Control Findings and Recommendations.” Our recommendations include:

- Motor Vehicles should improve procedures and controls over the addition, maintenance, and deletion of employees’ access to critical systems, and develop an information security awareness and training program.
- Motor Vehicles should revise its procedures to reconcile payments received from the Virginia Information Providers Network Authority for the sale of records over the Internet.
- Motor Vehicles should follow established procedures to ensure the proper recording and reporting of fixed assets and leases on the State’s central accounting systems.

Operating Fund Cash Flow

In the prior year’s audit we reported that Motor Vehicles operating cash balances had decreased to critically low levels resulting in problems meeting payments for current obligations. During fiscal year 2000, Motor Vehicles received a \$1.8 million reimbursement from the Virginia Department of Transportation (VDOT) as provided for in the Appropriations Act. These funds represented Motor Vehicles operating funds originally transferred to VDOT and designated by VDOT for capital projects. In addition, Motor Vehicles operating revenues increased approximately 11.5 percent over the previous year. These additional revenue sources enabled Motor Vehicles to improve its cash position and to pay its bills timely. Details of how Motor Vehicles spent these additional revenues are included in the “Agency Background” section of this report.

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April 30, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the Department of Motor Vehicles for the year ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures
Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are described in the section titled "Internal Control Findings and Recommendations." We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 14, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Monitor Application Systems Access and Develop an Information Security Awareness and Training Program

Motor Vehicles needs to improve controls and procedures for the addition, alteration, and deletion of employee access to its critical information systems. Procedures do not include a periodic review of user access to these systems. Also, an information security awareness and training program does not exist to ensure that all individuals know and understand their security responsibilities.

Proper monitoring of access to critical systems and training on user responsibilities are essential parts of internal control. Outdated access records and inappropriate security training increase the risk of unauthorized access of agency records and transactions.

We believe the lack of a periodic review of user access and no security awareness and training program contributed to the following personnel and access security weaknesses.

- Four terminated employees had active logons in the Fuel Tax System. Other departments did not provide notification for access removal for two employees to the information systems department. The information systems department had removed the other two employees from the overall mainframe, but not from the Fuel Tax System.
- Twelve employees had inappropriate update access to the Fuel Tax System. Nine of these employees should only have inquiry access and three should not have access according to their job duties.
- Three employees had access to the Accident Add screen in Citizen's Service System even though their job duties do not require the access.

Motor Vehicles should improve procedures and controls over the addition, maintenance, and deletion of employees' access to critical systems, and develop an information security awareness and training program. Motor Vehicles plans to hire an agency-wide security officer in the near future. The new security officer's responsibilities should include administering the security awareness and training program, and implementing a periodic monitoring and reviewing of employee access. These procedures will help ensure the integrity of accounting transactions and protect sensitive and confidential information from inappropriate access.

Develop Reconciliation Procedures for On-line Transactions

Motor Vehicles did not perform a complete reconciliation of payments received from the Virginia Information Providers Network Authority (VIPNET) for information processed over the Internet. Pursuant to agreement, VIPNET provides authorized users electronic access to Motor Vehicles records for a fee. VIPNET provides Motor Vehicles with monthly statements noting total on-line record inquiries and payments.

Motor Vehicles should revise its procedures to reconcile payments received from VIPNET for record inquiries over the Internet. Procedures should include verifying the total number of on-line transactions during a period and comparing to VIPNET payments. The volume of on-line record inquiries will continue to increase. A proper reconciliation would ensure that Motor Vehicles receive proper payment for these transactions. Motor Vehicles is currently developing reports and modifying programs in its Customer Service

System to aid in this reconciliation process. In addition, DMV has worked with VIPNET to obtain comparable data from each agency's systems for reconciliation purposes.

Follow Established Procedures for Reporting and Recording Fixed Assets and Leases

Motor Vehicles did not follow established procedures for recording building and equipment assets on the Commonwealth's Fixed Asset Accounting System (FAACS). Procedures require departmental managers notify the FAACS accountant of changes in status of fixed assets. The accountant updates FAACS accordingly. We requested Motor Vehicles personnel review the current FAACS listing for accuracy and they found the following errors.

- Surplused equipment totaling \$6.2 million remained on FAACS.
- Equipment below the capitalization threshold totaling \$2.2 million was included on FAACS.
- Equipment purchased for a major network system totaling \$7.2 million was not capitalized.
- FAACS included four buildings sold in previous years totaling \$865,000.

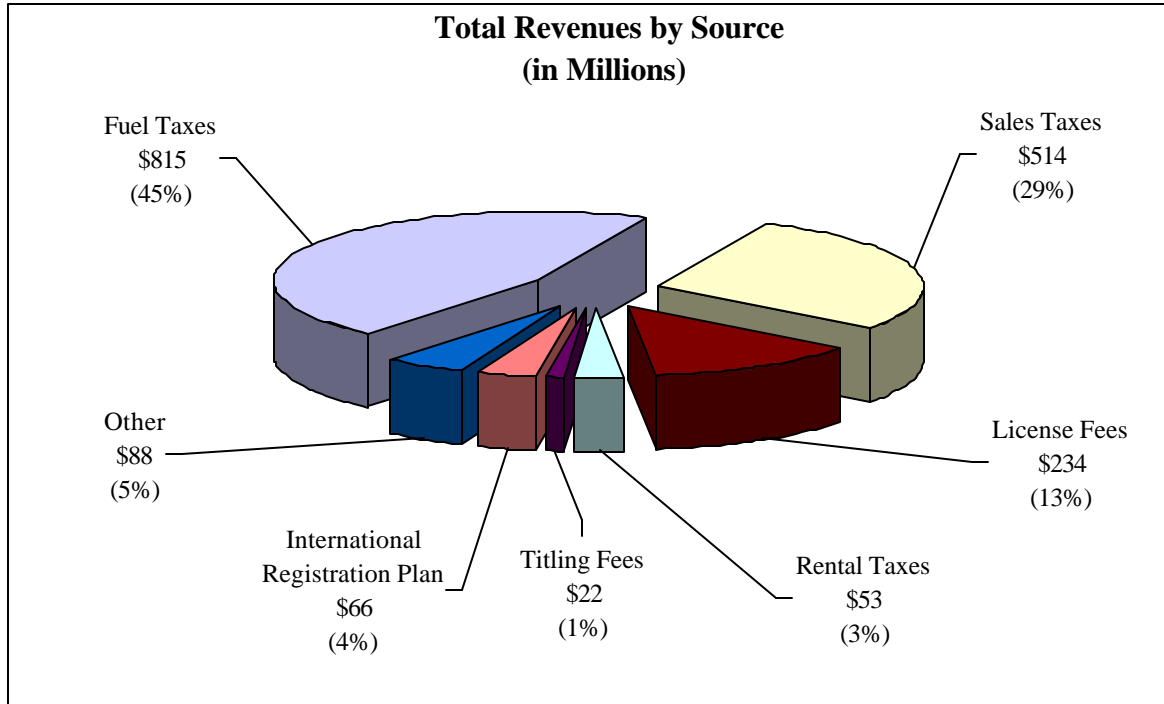
We also noted new leases entered into by Motor Vehicles incorrectly recorded on the Commonwealth's Lease Accounting System (LAS).

Motor Vehicles should reemphasize established procedures concerning proper accounting for fixed assets and leases to responsible employees. Periodic inventories of fixed assets and reviews of current lease agreements would ensure the accuracy of amounts reported on the Commonwealth's central accounting systems. The State Comptroller uses information on these systems for the Commonwealth's Comprehensive Annual Financial Report.

AGENCY BACKGROUND

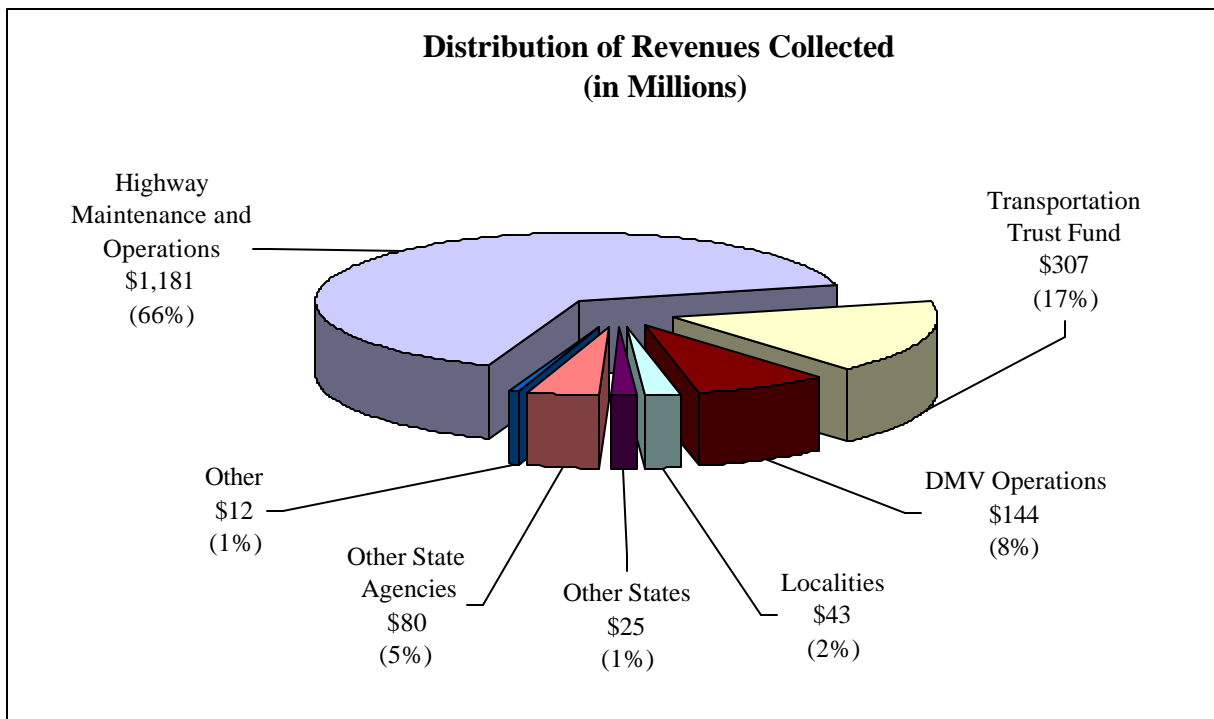
Revenue Collections

Motor Vehicles regulates the registration, licensing, and operation of motor vehicles and drivers within the Commonwealth. Motor Vehicles collected approximately \$1.8 billion in fiscal year 2000 from fees and taxes (see chart below).



Revenue Distributions

Motor Vehicles distributes revenue collections to the Commonwealth's Highway Maintenance and Operating and Transportation Trust Funds, other state agencies, localities, and other states (see chart on the following page). Over 83 percent of transfers for fiscal year 2000 went to the Highway Maintenance and Operating and Transportation Trust Funds. The Virginia Department of Transportation allocates those funds to other transportation agencies for maintenance and construction programs in accordance with state statutes. Motor Vehicles transfers revenue to other state agencies primarily to fund transportation and safety programs. Payments to localities represent an allocation of rental and mobile home taxes collected for the locality. Motor Vehicles Operating Fund collections totaled approximately \$144 million.



Motor Vehicles Special Funded Programs

Special Fund Collections

Motor Vehicles funds its' programs by retaining either a portion of the collection of the fees, taxes and other revenues of the Transportation Trust Fund or from special revenue collections associated with specific activities. These special revenue collections totaled approximately \$171 million during the year, representing an 11.5 percent increase from the previous year's collections. Programs funded from these collections include the Motor Vehicle Operating Fund (\$144 million), Motor Carrier Program (\$5.4 million), Motorcycle Rider Safety and Training Program (\$0.8 million), Uninsured Motorist Program (\$14.7 million), and Federal Programs (\$6.2 million).

Motor Vehicles' Operating Fund provides the primary source of funding for the agency's programs and activities. The major revenue sources accruing to the Motor Vehicle's Operating Fund include rental vehicle taxes, vehicle licensing and title fees, driver license fees, motor vehicle record fees, and reserved license fees. These fees comprise 80 percent of the approximately \$144 million in total Operating Fund revenues.

Special Fund Appropriations and Expenditures

The tables on the following page present Motor Vehicles' appropriations and expenditures for all operating costs and special funded programs during fiscal year 2000. The appropriations table reflects original appropriations per the Appropriation Act of 1999, Chapter 935, Acts of Assembly, plus additional

appropriations received during the year. The expenditure table compares current and prior year's expenditures by major expenditure object category.

Appropriations – Fiscal Year 2000

Original Appropriation FY 2000	Additional Agency Appropriation Requests	Final Adjusted Appropriations and Percentage Increase
\$133,721,362	\$21,767,877	\$155,489,239 16.2%

The table above shows that Motor Vehicles' appropriations increased by \$21 million during the year. As additional revenues accumulated over forecasted amounts, Motor Vehicles obtained approval from the Department of Planning and Budget to increase their appropriations and spend these additional revenues.

Expenditures – Fiscal Year 2000 vs. 1999

Expenditure Description	Expenditures FY 2000	Expenditures FY 1999	Expenditure Variance FY2000 Over/(Under) FY 1999 (\$ Amount and %)
Personal Services	\$ 87,521,831	\$ 80,193,045	\$ 7,328,786 9%
Contractual Services	36,189,508	32,049,593	4,139,915 13%
Supplies & Materials	11,079,913	10,117,946	961,967 9%
Transfers	3,620,510	2,481,196	1,139,314 45%
Continuous Charges	11,355,426	7,511,524	3,843,902 51%
Equipment & Facilities	3,080,026	4,938,269	(1,858,243) (37%)
Total	\$152,847,214	\$137,291,573	\$ 15,554,641 11%

The table above shows an increase in expenditures over the prior year of \$15.5 million or 11 percent. Motor Vehicles used its additional revenue resources to support initiatives that promote the agency's mission. Costs increased primarily in the areas of personnel, technology, and facilities maintenance and rental. The following information identifies specific cost increases related to these areas.

Personnel – Motor Vehicles increased the number of salaried employees by 27 to support its programs. Wage employees increased by 64 (from 192 to 256), primarily in the Customer Service Centers (CSC) throughout the Commonwealth. The remaining increase resulted from cost of living adjustments.

Contractual

Services – Computer hardware and software maintenance contract costs increased to support the new systems and technology-based service options. Consultant costs increased to help design and develop new systems. Also, with the new technological advances, expenditures increased in the

Department of Information Technology computer resource bill for increased usage and storage. Increased costs include technical training program for all CSC employees

Transfers – Motor Vehicles received additional federal funding under its transportation safety programs, increasing total federal reimbursements to other states and localities by \$1.5 million. These expenditures vary from year to year depending on the total grants awarded annually.

Continuous

Charges – Increased expenses include renovations at numerous CSC's statewide for plant repair and maintenance. Rental costs for facilities statewide and building capital leases increased. Motor Vehicles began financing payments for computer equipment increasing costs by \$2.1 million during the fiscal year. Also, agency insurance premiums increased based on actual claim activity at each agency per Risk Management's formula for premiums. These increases in continuous charges for equipment along with less capital expenditures accounted for the decrease in the equipment and facilities category.

Motor Vehicles Internet Services

Motor Vehicles continues to build its virtual customer service center on the Internet. Currently Motor Vehicles' website allows customers to perform the following transactions.

- Vehicle registration renewal
- Replace registration card
- Driver's license renewal
- Replace a lost or damaged drivers license
- Purchase an ID card (if customer currently has a Virginia driver's license or ID card)
- Report a vehicle sold or traded
- Provide insurance verification
- Change of address
- Purchase specialized or personalized plates
- Request Motor Vehicle record
- Voter registration
- Order a souvenir plate
- Request an administrative hearing
- Take a sample knowledge exam

Customers can also review detail of their prior on-line transactions and get directions, along with current and historic wait times, for any of the 73 customer service centers, 25 license agents, or 4 mobile customer service centers. Several transactions require a customer to have a personal identification number (PIN) and the web site allows for the request a personal identification number and the ability to change it.

During fiscal year 2000, customers conducted approximately 139,000 transactions; not including PIN related requests, over the Internet. These transactions generated approximately \$4 million of revenue. The first three months of fiscal year 2001, the Internet generated approximately \$3 million in revenue with transactions totaling approximately 114,000, not including PIN transactions. Motor Vehicles brought motor carrier service transactions to the web in August of 2000. Motor Vehicles envisions the Internet will eventually enable customers to conduct most of the transactions they currently perform in a customer service center.

Motor Vehicles' Technological Changes

Motor Vehicles has implemented several technological changes to deliver improved service to its customers and to process transactions more efficiently. The following include some of the major changes.

- Motor Vehicles implemented the Purchasing Inventory and Payables System (PIPS) in response to previous audit findings concerning the controls and manual processes affecting these functions. PIPS is an Oracle Governmental Financials Software package that Motor Vehicles purchased in December 1997 at a cost of approximately \$300,000 with total implementation costs of approximately \$600,000. PIPS has five modules purchasing, general ledger, payables, inventory, and budget. While the agency uses most of the functionality of these modules, it has not used the system to generate management used financial statements nor for the budgeting process.
- KATS (Knowledge Automated Testing System) is a computerized driver's license testing system where applicants simply touch the computer screen to indicate their response to test questions and the system automatically stops testing as soon as the applicant reaches a pass or fail score.
- The above section entitled "Motor Vehicles Internet Services" discusses the creation of an on-line customer service center.
- Touch-tone telephones allow customers to renew and pay with a credit card for their vehicle registrations and driver's licenses any time of day, seven days a week.

DEPARTMENT OF MOTOR VEHICLES
Richmond, Virginia

Richard D. Holcomb, Commissioner

Asbury W. Quillian IV, Deputy Commissioner

John C. Christian Jr., Controller

Larry E. Harrison, Budget Director