

**DEPARTMENT OF MOTOR VEHICLES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Department of Motor Vehicles for the year ended June 30, 2001 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;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate corrective action of prior audit findings, except for the prior year findings titled “Monitor Application Systems Access and Develop an Information Security Awareness and Training Program” and “Follow Established Procedures for Reporting and Recording Fixed Assets.”

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

Operating Fund Deficit

While Motor Vehicles reported a cash balance of \$1.4 million at June 30, 2001, its operating fund liabilities and obligations exceeded total assets causing an accrued operating fund deficit of \$2.3 million. This deficit exists despite the agency receiving additional appropriations to spend fees collected over forecasted amounts during the 2000 and 2001 fiscal years totaling \$13.7 and \$12.4 million, respectfully.

Motor Vehicles has used these excess funds to support initiatives and fund additional duties transferred to it. Many of the initiatives include technology upgrades requiring ongoing service and maintenance contracts that further obligate Motor Vehicles. The recent slowdown in general economic conditions will require management to closely monitor its spending levels and make important decisions that will reduce the current fund deficit.

Motor Vehicles has complied with the State’s prompt pay performance standards for timely payment of invoices. However, we noted some delays in payments to other state agencies. These delays along with an increase in vendor liabilities allowed Motor Vehicles to maintain its current cash balance. Payments to other state agencies totaled \$14.8 million during the year and of this amount Motor Vehicles paid \$7.3 million more than 30 days late. Management should strive to improve their cash position in order to make these payments more timely.

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November 6, 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, 2001. 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 and in the Department's accounting records, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

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
Fixed Assets

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 and in the Department's accounting records. 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 and Compliance 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.

The Department has not taken adequate corrective action with respect to the previously reported findings "Monitor Application Systems Access and Develop an Information Security Awareness and Training Program" and "Follow Established Procedures for Reporting and Recording Fixed Assets." Accordingly, we included these findings in the section titled "Internal Control and Compliance Findings and Recommendations." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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 February 15, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Continue to Develop Information Systems Security Plan and Monitor User Access

Motor Vehicles has not completed a revised information system security plan. Management began to revise portions of its existing plan to address changes in the department's information technology environment during the prior year audit. The plan still lacks updated agency risk assessments, security awareness and training programs, and a contingency plan.

Risk analyses should identify all sensitive information systems containing confidential or critical information. These systems will require security safeguards to ensure an effective control environment and minimize the potential for future loss. Motor Vehicles has implemented several technological initiatives to deliver improved service to its customers and to process transactions more efficiently. These changes in the computing environment increase the importance of up-to-date risk analyses to identify sensitive information systems.

Security awareness and training programs ensure that all employees involved in the management, operation, programming, maintenance, or use of critical information systems are aware of their security responsibilities and how to fulfill them. The Information Security Officer should use these programs to increase his knowledge of current security techniques and to conduct training in the user departments to enhance their knowledge of security issues. Lack of a documented security and awareness program contributed to the following personnel and access security weaknesses:

- Forty of 86 employees tested currently have inappropriate access to the Citizen Support System. Employees can inappropriately add accidents, and perform judgment delete and judgment change functions.
- One of 11 terminated employees tested did not have access deleted until noted by the auditor, nine months after termination date.

Contingency plans should include provisions for updating and testing to ensure that a contingency exists for all critical business functions. Updating and testing the plan and training the staff will identify and allow for correction of any problems that may exist. Without such a plan, management increases the risk of not resuming critical business activities promptly by either recovering computing capability or using alternate procedures, should a disaster strike.

The responsibility and accountability for an effective Information Systems Security Plan must begin at the Executive Management level and flow down to the individual users. The department should undertake and document a comprehensive risk assessment, and contingency plan for all information systems. The Information Systems Security Plan should include security awareness and training programs ensuring that all are aware of their security responsibilities and how to fulfill them. It is essential for Executive Management to provide guidance, continuing support, and involvement in the development and implementation of this plan.

Follow Established Small Purchase Charge Card Procedures

Motor Vehicles did not always follow established procedures related to the Small Purchase Charge Card Program. Management did not adequately review and approve employee cardholder purchase logs before paying charge card bills. Cardholders record information related to credit card purchases on these logs.

We reviewed 18 purchase logs and found the following:

- no written evidence of supervisory review for four logs
- cardholder receipts did not agree to one log
- two logs did not agree to the credit card vendor's monthly statement

The Commonwealth Accounting Policy and Procedures (CAPP) Manual requires a cardholder's supervisor to review and approve in writing, a monthly statement that has been reconciled to the purchasing log and supporting documentation before submission for payment. Motor Vehicles' policy also requires its accounts payable department to review the logs for supervisory approval prior to payment.

Lack of sufficient supervisor review creates the potential for misuse of the purchasing card by employees. Management should reinforce current Small Purchase Charge Card procedures. Supervisors should review and approve all purchasing logs and the accounts payable department should review all logs for appropriate authorizing signatures before payment.

Follow Established Procedures for Identifying and Recording Fixed Asset Purchases

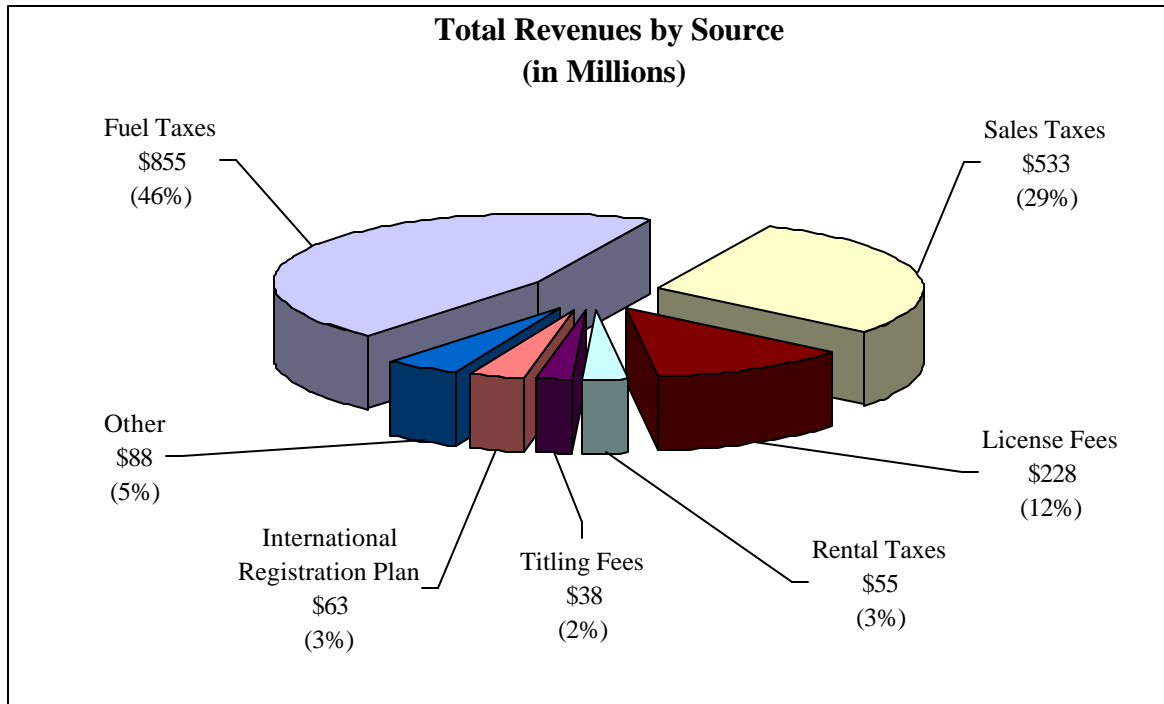
Motor Vehicles did not record all capitalizable assets on the Commonwealth's centralized fixed asset accounting system. We reviewed 10 fixed asset purchases during the year and found the Department did not record five of these assets totaling \$140,103. Also, we selected four installment purchases of equipment and found capitalizable assets not recorded totaling \$494,800.

Motor Vehicles has established procedures for identifying and recording fixed assets when purchased. Individuals responsible for this process must understand and follow these procedures to ensure the accuracy of financial records and that assets are not lost, stolen, or misplaced. The State Comptroller uses information on these systems for the Commonwealth's Comprehensive Annual Financial Report.

AGENCY BACKGROUND

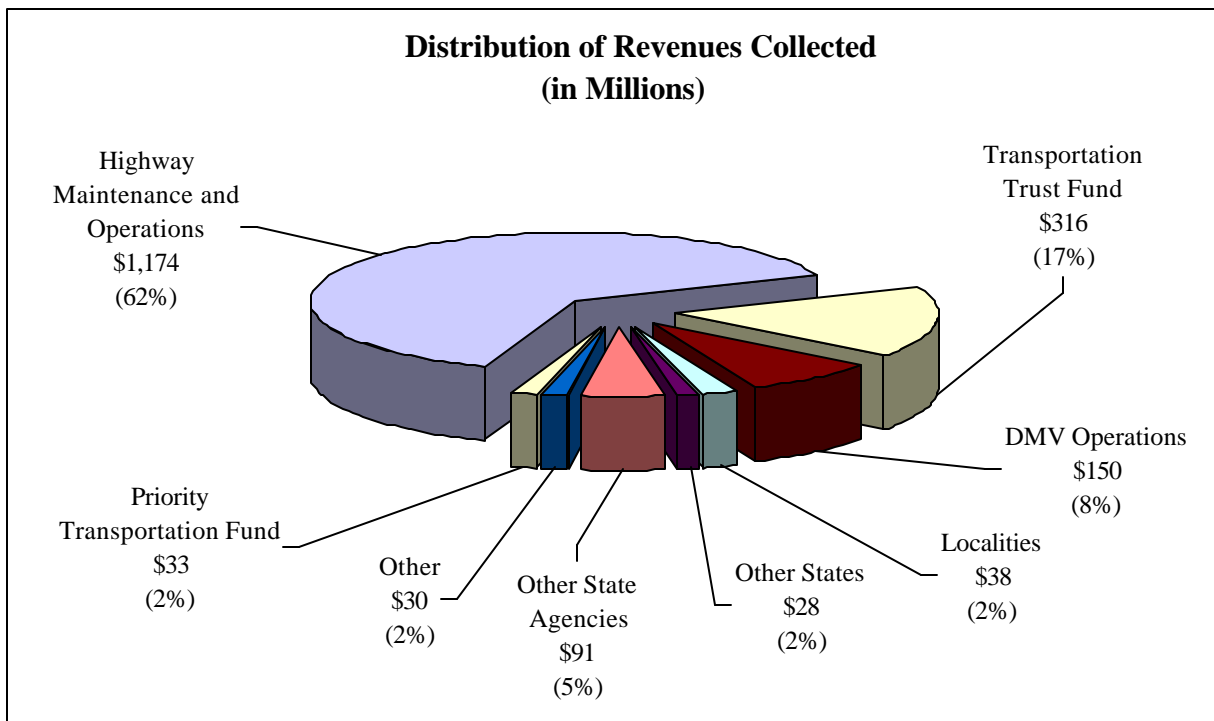
Revenue Collections

Motor Vehicles regulates the registration, licensing, and operation of motor vehicles and drivers within the Commonwealth. Motor Vehicles collected approximately \$1.86 billion in fiscal year 2001 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 81 percent of transfers for fiscal 2001 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 tax collected in the locality. Motor Vehicles Operating Fund collections totaled approximately \$150 million.



Motor Vehicles Special Funded Programs

Special Fund Collections

Motor Vehicles funds its programs by retaining either a portion of the collections of 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 \$187 million during the year, representing a 9.4 percent increase from the previous year's collections. Programs funded from these collections include the Motor Vehicle Operating Fund (\$150 million), Motor Carrier Program (\$5.6 million), Motorcycle Rider Safety and Training Program (\$0.9 million), Uninsured Motorist Program (\$19.4 million), and Federal Programs (\$10.7 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, operator permit fees, and reserved plate fees. These fees comprise 80 percent of the approximately \$150 million in total Operating Fund revenues.

Special Fund Revenues and Expenses

The tables on the next page present Motor Vehicles' revenues and expenses for all operating costs and special funded programs during fiscal year 2001. The revenue table reflects original appropriations of retained revenue per the Appropriation Act of 2000, Chapter 1073, Acts of Assembly, plus additional appropriations received during the year to retain further revenues.

Revenues – Fiscal Year 2001

Original Appropriation FY 2001	Additional Agency Appropriation Requests	Final Adjusted Appropriations and Percentage Increase
\$142,976,779	\$36,092,098	\$179,068,877 25.2%

The table above shows that Motor Vehicles received an appropriation to retain an additional \$36 million during the year. The following information identifies amounts and programs were Motor Vehicles used this additional funding.

Motor Vehicles

Operations – As additional fee collections accumulated over forecasted amounts in the operating fund, Motor Vehicles obtained approval from the Department of Planning and Budget to increase its appropriations and spend these additional revenues. These increases totaled \$12.4 million during the year. Also, Motor Vehicles received additional appropriations for employee cost of living adjustments totaling \$6.5 million.

Weigh Station

Program – Effective September 2000, Motor Vehicles began administering the state's truck weigh station program formerly run by the Virginia Department of Transportation. Additional appropriations to Motor Vehicles for this program totaled \$11.4 million.

Federal

Programs – Federal grants increased significantly over initial amounts appropriated. Additional appropriations for this increase in federal programs represents approximately \$4.4 million, the majority of which Motor Vehicles disburses to other state agencies and localities.

Expenses – Fiscal Year 2001 vs. 2000

The expense table compares current and prior year's expenses by major object category.

Expenditure Description	Expenditures FY 2001	Expenditures FY 2000	Expenditure Variance FY2001 Over/(Under) FY 2000 (\$ Amount and %)
Personal Services	\$ 100,516,328	\$ 87,521,831	\$ 12,994,497 15%
Contractual Services	40,104,313	36,189,508	3,914,805 11%
Supplies & Materials	13,307,200	11,079,913	2,227,287 20%
Transfers	5,058,046	3,620,510	1,437,536 40%
Continuous Charges	11,838,403	11,355,426	482,977 4%
Equipment & Facilities	5,547,786	3,080,026	2,467,760 80%
Total	\$176,372,076	\$152,847,214	\$ 23,524,862 15%

The table on the previous page shows an increase in expenses over the prior year of \$23.5 million or 15 percent. Much of this increase, \$11.5 million, resulted from the agency's assumption of the truck weigh station program. Costs increased primarily in the areas of personnel, technology, and equipment. The following information identifies specific cost increases related to these areas.

Personnel – Personnel costs increased by \$6.8 million with the addition of the state's weigh station program. Motor Vehicles also increased the number of wage employees by 22 to support its programs. The remaining increase resulted from cost of living adjustments, changes in fringe benefit rates, and salary adjustments.

Contractual

Services – Computer hardware and software maintenance contract costs continue to increase as Motor Vehicles adds new systems and advances in computer technology. Consultant costs also 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.

*Supplies
and*

Materials – Photo supplies increased by \$1.5 million with the addition of a new Polaroid contract for drivers license identification. Interior renovations to local Customer Service Centers required increases in electrical and mechanical materials.

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

*Equipment
and*

Facilities – Increased equipment expenses included a new phone system and the purchase of a Mobile Licensing Unit. Other expenses included upgrades and enhancements to the automated license testing machines and the Qmatic system. Also, a greater investment in desktop computing and networking brought associated increases in maintenance/license fees.

Operating Fund Deficit

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	Number of Vouchers	\$ Amount
0-30 days	7	\$ 3,301,614.62
31-60 days	12	4,866,949.91
61-90 days	4	1,612,959.65
over 90 days	2	828,437.74
Total	25	\$10,609,961.92

Motor Vehicles' Technological Initiatives

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

- 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 four modules: purchasing, general ledger (including budgeting), payables, and inventory. 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.
- Motor Vehicles had developed an electronic payment method, ACH Debit, for its commercial customers that provides better cash management for both parties. Commercial customers can authorize Motor Vehicles to debit their bank account for services that are ordered on-line or by telephone. This process allows customers to receive services immediately and assures Motor Vehicles will collect payment.
- Continued development of on-line, web-based transactions that allow customers to obtain information and perform motor vehicle transactions without going to a DMV location. This includes driver and vehicle license renewals and replacements, driver and vehicle records, plate purchases, address changes, insurance verification, various motor carrier transactions, and voter registration. Many of these transactions provide security to the customer by requiring use of a personal identification number to process the transaction.
- Touch-tone telephones allow customers to renew and pay with credit card 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