DEPARTMENT OF MOTOR VEHICLES

RICHMOND, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2002

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Motor Vehicles for the year ended June 30, 2002, 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 finding titled "Follow Established Procedures for Identifying and Recording Fixed Asset Purchases."

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

Operating Fund Deficit

During 2002, Motor Vehicles' cash flow problems continued and required that the department obtain a Treasury Loan to meet its vendor obligations. The on-going cash problems over the past five years without adjusting spending patterns has converted a $3.4 million surplus in 1997 to a cash deficit of ($1.8 million) in 2002 and with unpaid bills added to the cash deficit, the total deficit is approximately ($8 million).

As a condition of receiving the Treasury loan, Motor Vehicles had to develop a loan repayment plan and plan to resolve Motor Vehicles' cash flow problems. In addition to this plan, Motor Vehicles, like the rest of state government, has been subject to budget reductions.

Motor Vehicles has implemented budget reductions to address its long-term cash flow issues and its need to control costs. At this point, it is unclear whether management has taken sufficient steps to control long-term costs. Initial indications show that there is an increase in revenue, which appears to be primarily from the approved increased fees. Recent actions to reduce staff and begin recovering a portion of the credit card merchant's fee should also help to reduce costs.

Additionally, Motor Vehicles' management will need to consider the necessity of retaining some minimum level of cash reserves to fund on-going operations or to have a permanent line-of-credit to meet their obligations. The amount of this reserve will depend on the ultimate effect of the budget reductions and other actions management takes. This report discusses the lack of adequate cash reserves and highlights the problems management will face if it does not have access to this operational funding mechanism.

This report provides background on Motor Vehicles' cash flow problems and how management plans to implement the budget reductions. Motor Vehicles' management will need to monitor its progress as it implements the Treasury Loan Repayment plan and the budget reductions.

-TABLE OF CONTENTS-

AGENCY BACKGROUND

Introduction

The Department of Motor Vehicles (Motor Vehicles) is the primary collector of the Commonwealth's transportation revenues. The Commonwealth's Highway Maintenance and Operating, and Transportation Trust Funds receive the majority of their revenue for the construction, reconstruction, and maintenance of roads and bridges in the state highway system, interstate system, and secondary road system from Motor Vehicles.

Motor Vehicles also has legislative responsibilities including transportation safety, motor vehicle and driver licensing and regulation, and motor carrier licensing and regulation. Further, the agency has statutory responsibilities with respect to the Personal Property Tax Relief Act, motor voter implementation, and collection of certain taxes for localities.

Motor Vehicles Operating Fund

Motor Vehicles' primary operating funding comes from keeping a percentage of the Transportation Fund collections and receiving some Federal grants. The percentage of collections kept by Motor Vehicles varies by operations and purpose of collection and is set forth in the Code of Virginia. In addition, the Governor's Budget and the actions of the General Assembly may restrict and limit Motor Vehicles' use of the collections they retain.

Motor vehicle registration fees, rental vehicle tax, vehicle title fees, driver license fees, motor vehicle record fees, and reserved license fees are the primary collections that generate the funding for the Motor Vehicles Operating Fund. In turn, Motor Vehicles Operating Fund provides resources for the administration of programs and to meet statutory requirements. The major expenses of Motor Vehicles are personal services, postage, information technology, telecommunications, license plates, equipment, and plant rentals.

Operating Fund Cash Flow Problems

Over the past five years, cash balances in the Motor Vehicles Operating Fund have decreased from $3.4 million in 1997 to a deficit of ($1.8 million) in 2002. Motor Vehicles has problems paying current obligations and often cannot comply with the State's prompt payment performance standards for timely payment of invoices. As a result, unpaid obligations have increased significantly and Motor Vehicles has begun to carry these obligations forward to subsequent fiscal years.

Cash shortfalls have reached the point where Motor Vehicles must borrow funds from other sources to meet its obligations. We have analyzed the causes and effects of the cash flow problems currently facing Motor Vehicles and have documented these below. Many of the issues have existed during the past three years and are part of prior audit reports.

Operating Revenues

During the past five years, Motor Vehicles' operating revenues have increased at a slower percentage rate than operating expenses. The following table shows revenues have grown at an average of 4.6 percent over this period while operating expenses have increased at an average rate of 5.6 percent.

	FISCALYEAR				
	1998	1999	2000	2001	2002
Revenues	$127,626,397	$130,172,296	$143,630,479	$149,649,778	$150,943,158
% Change	3.7%	2.0%	10.3%	4.2%	0.9%
Expenditures	$119,500,008	$125,190,777	$141,251,421	$148,747,106	$150,303,383
% Change	3.9%	4.8%	12.8%	5.3%	1.1%
Expenses and Transfers	$130,162,153	$130,655,431	$141,794,796	$150,557,547	$154,282,710
% Change	8.9%	0.4%	8.6%	6.2%	2.5%

Motor Vehicles has historically forecasted revenue collections for the Commonwealth Transportation Fund, and as a result, the revenues for their operating fund. To do the forecasts, Motor Vehicles has developed a methodology that is different from the methodology to forecast revenues for the General Fund of the Commonwealth. Population trends and general economic conditions significantly affect the forecast of operating revenues. Motor Vehicles has developed their forecasting model using a customer base that includes all licensed drivers and registered vehicles.

Budgeting Process

The Commonwealth’s budget and appropriation practices for agencies and institutions that fund their operations by retaining a portion of collections or assessing fees is to require the agency to submit a budget for consideration by the Governor and General Assembly using the agency’s estimate of revenue collections. The Governor includes the budget estimate in the Budget Bill and General Assembly then acts on this information. Because these agencies forecast their collections as much as three (3) years in advance of the budget period, the Appropriation Act gives the Department of Planning and Budget the authority to adjust an agency’s budget to actual collections.

As reflected in the table below, over the past five (5) years, Motor Vehicles customer base has increased an average of 4.2 percent. The growth in Motor Vehicles customer base corresponds with the average increase in operating revenues. However, the general economy has slowed considerably over the past two years and as a result, Motor Vehicles experienced a shortfall in forecasted revenue collections. During the fiscal year ending June 30, 2002, operating revenues were approximately $3 million under forecasted amounts. Specific revenue categories under projections were Registration fees ($1 million), Drivers License fees ($1.3 million), and Vehicle Rental Tax fees ($1 million).

MOTOR VEHICLES CUSTOMER BASE					
Year	1998	1999	2000	2001	2002
Customer Base*	10,967,821	11,304,699	11,737,900	12,346,700	12,851,538
% Change	4.8%	3.0%	3.7%	5.2%	4.1%

*Customer Base is the total of all licensed drivers and registered vehicles in the Commonwealth

Appropriations Process and Amendments

Based on forecasted revenue and an analysis of anticipated expenses, Motor Vehicles submits a budget request for an appropriation to spend money to fund its operations. Based on action of both the Governor and General Assembly, Motor Vehicles receives its operating appropriations. Historically, if both budgeted and actual expenses are less than the actual revenue, Motor Vehicles can retain the excess as fund balance of the operating fund. Use of this fund balance is subject to future appropriations and has allowed Motor Vehicles to pay for capital and other significant cash outlays such as new computer systems.

Past budgets submitted by the Governor and approved by the General Assembly have taken all or a portion of Motor Vehicles' operating fund balance. In fiscal year 1998 for example, such actions required Motor Vehicles to transfer approximately $9 million in surplus funds to the Department of State Police.

In recent years, Motor Vehicles has consistently requested and received approval from the Department of Planning and Budget for additional appropriations, when fees collected exceeded forecasted amounts, because Motor Vehicles has had surplus revenues that have been steady and large. However, Motor Vehicles' appropriations included in both the Governor's Budget Bill and in the Appropriation Act have not reflected the true cost of operations or the anticipated revenue collections.

The table below reflects original appropriations of retained revenues per the Appropriation Acts, for the fiscal years 1999 through 2002, plus additional appropriations approved by the Department of Planning and Budget. Most of the additional funding has supported Motor Vehicles customer service improvement initiatives.

Fiscal Year Ending June 30,	Appropriations per Acts of Assembly	Additional Agency Appropriation Requests	Final Adjusted Appropriations	Percentage Increase
1999	$ 113,743,277	$ 11,704,944	$ 125,448,221	10.3%
2000	118,887,165	22,528,289	141,415,454	18.9%
2001	130,584,965	19,004,553	149,589,518	14.6%
2002	130,648,468	22,588,288	153,236,756	17.3%

Motor Vehicles' operating revenues increased an average of 4.6 percent over the past four years. As these revenue collections increased, Motor Vehicles management requested and received approval for additional spending. The average increase in appropriations requested during the past four years is 15.4 percent. Therefore, Motor Vehicles has spent unbudgeted funds at three times the rate of revenue growth. During this same four-year period, deficits in Motor Vehicles' operating fund continued to worsen despite the increase in additional appropriations.

New Operating Costs and Initiatives

Motor Vehicles has not requested or retained any funding it was not entitled to use, and much of the funding was used for activities other than the collection of revenue. While the Customer Base grew at an annual rate of approximately 4.2 percent, much of the growth in cost resulted from Motor Vehicles assuming additional responsibilities without additional funding for the Personal Property Tax Relief Act Program, and to a lesser degree the Motor Voter Program. However, Motor Vehicles did not fully consider the larger and more long term costs it incurred with many of it customer service undertakings.

Motor Vehicles set as a priority providing high quality customer service. This objective resulted in a number of initiatives that allows citizens to transact business over the Internet, over the phone and other initiatives to reduce customer volume at service centers. While undertaking these initiatives, Motor Vehicles also expanded the number of customer service centers, re-aligned the centers' staffing, and remodeled or improved the facilities. The center improvements sought to reduce customer wait time and make the use of the center more customer-friendly.

All of these initiatives had inherent long term costs and many actually only added to the cost of operations. As an example, the purpose of allowing citizens to use the Internet to transact business was to reduce customer traffic in services centers. To achieve this initiative, Motor Vehicles began the use of credit cards and made a decision to absorb the merchant's credit card fees without passing the additional cost onto the customer. Additionally, Motor Vehicles made a number of system enhancements and other telecommunication improvements again absorbing not only the initial cost of improvement, but the on-going cost of maintaining the system and telecommunication network. At the same time, Motor Vehicles continued to maintain or increase staffing in the customer service centers.

It is not clear from any of Motor Vehicles' analyses whether the Internet initiative saved money or diverted customers from service centers that would have needed more personnel. Financially, what is clear, is that on-going costs of operation have and continue to exceed the funding available to Motor Vehicles' management.

Treasury Loan and Repayment Plan

Had Motor Vehicles paid all costs it incurred during fiscal year 2002 to both outside vendors and those state agencies providing services and products to Motor Vehicles, cost of operations would have been $8 million higher or $158 million rather than the cash outlays of $150 million. By not paying vendor and state agency bills and borrowing $2 million from the State Treasury, Motor Vehicles did keep a small cash balance to appear to not have a cash deficit.

Motor Vehicles has used the same technique for the past three years to end the fiscal year with a positive cash balance. This technique coupled with the ability to access some cash balances in other funds either near or shortly after year-end, has given Motor Vehicles the necessary cash to meet commitments to outside vendors and partially catch up on paying state agencies. This process without adjusting spending patterns has converted the $3.4 million surplus in 1997 to a cash deficit of ($1.8 million) in 2002 and with unpaid bills added to the cash deficit, the total deficit is approximately ($8 million).

To obtain the $2 million Treasury loan, in April, Motor Vehicles had to submit a plan to not only repay the loan, but to satisfy and make current all vendor and state agency payment obligations. The Treasury Loan repayment plan assumed that Motor Vehicles would collect and retain all fees that they could legally keep, which includes provisions to retain their portion of a number of the fee increases approved by the 2002 session of the General Assembly. Additionally, Motor Vehicles agreed to reduce personnel and related costs, and maintain all other cost at 2002 levels or lower. These other actions include controlling costs in the following areas.

1. A reduction of 25 wage and 30 full-time positions to reduce personnel expenses.

2. Reduce the scope of some technology projects, eliminate some technology contractors, and defer equipment purchases reducing technology costs.

3. Reduce facilities improvements and other costs to a minimal level of spending.

4. Reduce discretionary contractual services, travel, and overtime.

Budget Reductions

However, Motor Vehicles submitted the Treasury Loan repayment plan before the economic conditions of the Commonwealth continued to deteriorate. As a result of these economic conditions, the Governor has requested and Motor Vehicles has submitted a further plan to reduce spending. This reduction plan coincided with the requested Treasury loan repayment plan. Both plans permit Motor Vehicles to retain the additional revenue from increased fees and other charges. This plan includes the following actions proposed by Motor Vehicles' management to implement these reductions.

1. Have personnel savings of $3.5 million in both 2003 and 2004 by reducing overtime, wage employees, and holding 60 full-time positions vacant.

2. Reduce Customer Service Center projects, and planned equipment purchases $820,000 in 2003 and $400,000 in 2004.

3. Cut discretionary spending by $1.4 million and $3.8 million for 2003 and 2004 respectively. This includes eliminating computer purchases and technology projects as well as reducing travel expenses.

After June 30, 2002, Virginia's economy continued to decline and the Governor began a new series of budget reductions that affected Motor Vehicles' operations. This series of reductions included the items listed below and may include further reductions that the Governor will recommend to the General Assembly during its 2003 Session. Following are the steps taken to implement the last round of budget reductions.

1. Further reduction of personnel by eliminating positions, which resulted in 587 layoffs saving approximately $3.4 million in 2003 and $9.8 million in 2004.

2. Customer Service Centers savings of approximately $5 million in 2003 and $9.9 million in 2004. This includes permanently closing 12 branches across the state and closing all others centers one day per week. In addition, Motor Vehicles will eliminate mobile customer service centers and eliminate all new or relocated facility initiatives.

3. Management will further reduce discretionary spending by $1.2 million and $2.4 million for years 2003 and 2004, respectively. These savings will be generated by assessing credit card fees, eliminating all professional contractual staff, and reducing contracts for outsourced and skilled services.

Current Status

Motor Vehicles has implemented budget reductions to address its long-term cash flow issues and its need to control costs. At this point, it is unclear whether management has taken sufficient steps to control long-term costs. Initial indications show that there is an increase in revenue, which appears primarily from the approved increased fees. The actions to reduce staff and begin recovering a portion of the credit card merchant's fee should also help to reduce costs.

Additionally, Motor Vehicles' management will need to consider the necessity of retaining some minimum level of cash reserves to fund on-going operations or will need to have a permanent line-of-credit to meet their obligations. The amount of this reserve will depend on the ultimate effect of the budget reductions and other actions management takes. The discussion below on the lack of adequate cash reserves highlights the problem management will face if it does not have access to this operational funding mechanism.

Below is a discussion of Motor Vehicles' operating expenses over the past five years. We have provided this information to indicate areas that Motor Vehicles' management needs to monitor as it implements the Treasury Loan Repayment plan and the budget reductions.

Operating Expenses

The table below shows an increase in operating expenses over the five (5) year period of approximately $31 million or 26 percent. Yearly increases in Motor Vehicles operating expenses are due to rising personal service costs, equipment financing, furnishings, renovations and data processing costs at the 73 Customer Service Centers. Motor Vehicles has invested heavily in technology, facilities, and human resources in order to provide a level of customer service that compares with some private sector firms. However, it is questionable that program activity levels increased at a rate that would justify the increased costs in operations. Further, the implementation and upgrades in information technology has increased recurring costs for related maintenance and service contracts.

Expenditure	1998	1999	2000	2001	2002
Personal Services	$ 70,577,679	$ 76,024,667	$ 83,163,529	$ 87,420,234	$ 86,352,073
Contractual Services	27,682,091	26,263,426	31,847,351	32,509,686	34,946,646
Supplies & Materials	10,981,642	10,102,489	11,055,702	12,774,605	13,948,044
Transfer Payments	837,268	457,475	691,577	710,498	782,654
Continuous Charges	5,233,454	7,511,524	11,353,065	11,595,847	11,458,672
Property & Improvements	12,124	34,733	2,225	35,542	6,316
Equipment	2,372,586	3,457,099	2,488,164	3,570,233	2,608,889
Plant & Improvements	1,803,164	1,339,364	649,809	130,461	200,089
Total	$119,500,008	$125,190,777	$141,251,421	$148,747,106	$150,303,383

The largest expense increases during this period are personal services (22 percent), contractual services (26 percent) and continuous charges (119 percent). The following information identifies specific cost increases related to these areas.

Personal Services – Increases include cost-of-living adjustments, changes in fringe benefit rates, and salary adjustments. The increase also reflects additional classified positions and greater use of wage employees in the Customer Service and Customer Call Centers. Over the past five years the number of full-time employees has increased even though Motor Vehicles has invested heavily in technology to offer alternate service methods.

	Year				
	1998	1999	2000	2001	2002
Full Time Employees	1,781	1,783	1,810	1,801	1,831
% Change	0.7%	0.1%	1.5%	-0.5%	1.6%

Contractual Services - Major increase in costs began in fiscal year 2000. 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. In addition, with the new technological advances, expenses increased in the Department of Information Technology computer resource bill for increased usage and storage.

Continuous Services - Increased expenses included renovations at numerous Customer Service Centers 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 fiscal year 2000. In addition, agency insurance premiums increased based on actual claim activity at each agency per Risk Management's formula for premiums.

Motor Vehicles has managed expenses through budgeting and other fiscal controls but has failed to manage costs. Managing costs, encompasses broader issues including activity measurements and opportunity costs. Strategic management of cost requires analysis of economies of scale, return on investment measurements, and the long-term financial impact of contractual services and technology investments. Management of costs also depends on other issues including administration and economic factors. The combination of a slowing economy and rising costs has contributed to Motor Vehicles' deteriorating fiscal condition.

Motor Vehicles has also absorbed the administrative operating expenses of the Personal Property Tax Relief Act program. Costs to run this program were $1.6 million in 1999, $1.2 million in 2000, $900,000 in 2001 and $634,975 in 2002, for which Motor Vehicles received no additional funding. Additionally, despite having the authority to do so, Motor Vehicles did not pass the cost of credit card transactions to the customer. These administrative costs, absorbed by the department for fiscal years 2000 through 2002, totaled $1.2 million, $1.6 million and $1.8 million, respectively. In December 2002, Motor Vehicles will begin charging a convenience fee for these transactions.

Lack of Cash Reserves Contributes to the Cash Flow Problem

Motor Vehicles does not have adequate cash reserves available in its operating fund to meet its current obligations. The daily collection of funds governs the payment of outstanding invoices. Motor Vehicles' management must review the cash balance statements on a daily basis to determine what obligations they can meet. Frequently they must wait for the collection of fees in order to pay vendor bills. However, they can incur temporary cash deficits with the Treasurer of Virginia to meet their $4 million semi-monthly payroll obligation. When this occurs, Motor Vehicles must defer the payment of vendor invoices and other state agency bills until revenue collections create a positive cash balance.

As reported previously, cash balances in Motor Vehicles operating fund have decreased over the past five years from $3.4 million in 1997 to a ($1.8 million) deficit on June 30, 2002. In addition, Motor Vehicles' unpaid obligations in the operating fund have increased significantly over the past five years, from $3.8 million in 1998 to $6 million in 2002 (this $6 million does not include the July 1, 2002, payroll of approximately $4 million). Total outstanding obligations for 2002 include approximately $6 million in payments due to vendors and other state agencies and a $2 million loan from the State Treasurer to pay invoices due at the end of the fiscal year.

Motor Vehicles ended fiscal year 2002 with insufficient cash balances to operate during the months of July and August 2002. Consequently, Motor Vehicles has borrowed funds from the Uninsured Motorist Program and the Weigh Station Program to meet obligations due at the beginning of fiscal year 2003. The Uninsured Motorist Program, has $4.5 million appropriated for operational expenses throughout the year. Motor Vehicles management used the full amount of this appropriation to cover agency operating expenses for the month of July. Additionally, during July, Motor Vehicles transferred $1 million from the weigh station programs to the operating fund for estimated August payroll. If Motor Vehicles had not transferred these funds, they would not have met July obligations. Motor Vehicles now runs the risk of not having funds available to meet future obligations of these programs.

TRANSPORTATION REVENUE COLLECTIONS

Motor Vehicles is the primary collector of the Commonwealth's transportation revenues. The Commonwealth's Highway Maintenance and Operating, and Transportation Trust Funds receive the majority of their revenue for the construction, reconstruction, and maintenance of roads and bridges in the state highway system, interstate system, and secondary system of state highways from Motor Vehicles.

Motor Vehicles collected net revenues of $1.88 billion during fiscal year 2002. Motor fuels tax, sales tax, and license fees comprise the largest portion of revenue collections. An analysis of these revenue sources shows that sales tax collections increased by $30 million (6 percent) over the previous year. Purchases of vehicles continued to rise even as economic growth slowed, due to dealer incentives such as zero percent financing. Fuels tax collections, however, only increased by $3 million (.38 percent) and motor vehicle license fees decreased by $3 million (1.6 percent).

Net revenues in total represent only a 2 percent increase over the previous year. The rate of growth in overall agency collections has slowed over the past three years, reflecting the general economic slowdown in the state during this period. Management expects this trend to continue during fiscal years 2003 and 2004.

	Amounts in Millions			
Fees and Taxes	FY 2002	FY 2001	FY 2000	FY 1999
Fuels Tax	$ 808	$ 805	$ 777	$ 764
Sales Tax	526	496	492	436
Licenses	208	213	208	195
Rental Tax	52	55	53	48
International Registration Plan	63	63	66	62
Petroleum Storage Tank	35	36	33	26
IFTA (Road Tax)	24	24	24	24
Titles	24	24	23	21
Record Certification	24	21	20	19
Uninsured Motorist	23	20	15	12
Other	93	89	82	77
Total*	$ 1,880	$ 1,846	$ 1,793	$ 1,684

* Total equal net of refunds

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. Over the past five (5) years Motor Vehicles transferred an average of 83 percent of its collections 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 also transfers revenue to other state agencies primarily for transportation and safety programs.

Payments to localities represent an allocation of rental and mobile home tax collected in the locality.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Assess Needs and Develop Policy and Procedures over the Fuels Tax Program

Effective January 1, 2001, the Virginia Fuels Tax Act imposed new regulations concerning the timing of fuels tax collections within the Commonwealth. The Act changes the tax payment due date based on fuel issued at the terminal rack ("Tax at the Rack"), rather than at the distributor level.

With the change to "Tax at the Rack," Motor Vehicles implemented a new automated system, the Motor Fuels Tracking System (MFTS), to track the collection and reporting of motor fuels tax. We reviewed MFTS's processes and the critical automated and manual internal control components over this system. Our review identified several important issues noted below that could adversely affect the tax collection and reporting processes. Fuels tax collections for fiscal year 2002 totaled approximately $804 million, and many internal and external clients rely on accurate statistical reporting of these taxes to make important decisions. Some of the issues exist because Motor Vehicles did not have adequate lead time to review their business processes and assess their needs prior to "Tax at the Rack's" approval.

- A formal implementation plan did not exist to assess all information technology needs from the new system regarding fuels tax reporting. For example, the new system does not provide automated reports containing information required for submission to the Department of Transportation and other external entities. Motor Vehicles has recently requested system modifications to provide this information.

- Motor Vehicles does not have formal policies and procedures addressing the duties and responsibilities of employees within the Fuels Tax Division. Policies and procedures would provide essential information for user reference, efficiency of operations, and general knowledge over the new system.

- Motor Vehicles does not have policies and procedures for the periodic review of user access to its critical information systems. Per review of the MFTS user access, 2 of 10 employees tested had inappropriate access to the Fuels System. Proper monitoring of access to critical systems and training on user responsibilities is an essential part of internal controls. Outdated access records increase the risk of unauthorized access of agency records and transactions.

- The Fuels Tax Division has not entered all essential data received from taxpayers onto the MFTS. Essential data includes purchases and sales of fuel types by licensed suppliers and distributors. Without this data, the system cannot execute functions nor produce accurate reports to ensure collection of all tax revenue due.

- Lack of the essential data mentioned above has caused the Tax Division to develop an extensive manual process to obtain important tax information. These manual processes cause inefficient use of time and increase the possibility of errors in reporting. Manual processes include identifying non-filers of tax reports, preparing bills for outstanding payments due, issuing refunds for overpayments, and providing statistical data for reports and letters forwarded to internal and external customers. System capabilities include each of these processes.

The system must include complete and accurate data to effectively use all system features. The Tax Division has made some progress toward entering the essential data into the system. Currently, taxpayers submit their informational reports on paper copies. Requiring the taxpayers to enter data through electronic means would eliminate the Division's cumbersome task of reprocessing this data. System features would still exist for the Division to verify accurate input by taxpayers.

Motor Vehicles should continue to assess its needs regarding administration of the fuels tax program. Assessments should include both automated and manual processes, and should result in policies and procedures that the user can use as reference on how to properly use the system. These policies and procedures would provide a base for establishing strong internal controls over processing fuels tax data on the new system.

Strengthen Information Systems Security Policies and Procedures

Develop Policies and Procedures for Maintaining Proper Controls on Servers

Motor Vehicle does not have complete written policies and procedures for maintaining security controls on UNIX production servers. Policies and procedures should identify critical controls and restrictions over the system. Failure to implement proper policies and procedures could lead to improper controls placed on the system, and allow for unauthorized access, placing the integrity and completeness of the data stored on the system at risk.

Information Technology Services does not review security audit log reports on Unix critical servers. Motor Vehicles' Security Standards and Guidelines require a daily review of audit logs for servers and hosts on the internal, protected network. Without this review, unauthorized access to the system data and programs may occur and go undetected.

Motor Vehicles should also review the security log for attempted unauthorized access to critical servers. This preventive control would identify potential problems rather than reacting to a problem after it has already taken place.

Strengthen Controls over Program Changes

Motor Vehicles does not have adequate controls in place for program changes to UNIX-based automated systems. Programmers have the capability to make changes to programs, and to release these changes into production after final approval. Programmers should not have the capability to move program changes into production. Further, a log documenting who moved the program change into production does not exist. Such a log would provide accountability for all program changes made and identify individuals inappropriately making these changes.

Motor Vehicles should strengthen their controls over program changes by not allowing programmers to put changes into production and by establishing a log to account for all individuals moving changes into production.

Properly Record and Track Assets on the Fixed Asset Accounting and Control System

As previously reported, Motor Vehicles does not record and track fixed assets in accordance with state guidelines. Management did not provide personnel at Customer Service Centers with proper procedures for tracking and recording surplus equipment and disposal of such equipment. Failure to properly report and update fixed asset changes could result in a misstatement of the fixed asset inventory balance.

Motor Vehicles should update their procedures over fixed assets and ensure that employees understand their responsibilities concerning fixed asset accounting policies and procedures. These responsibilities should include reporting all changes in equipment status to the Central Office for proper inclusion on the fixed asset system. Procedures should also include periodic inventories identifying surplus, obsolete, or out-of-service assets. These procedures will help safeguard assets and will provide accurate reporting of fixed assets.

Ensure Proper Classification and Reporting of Leases

Motor Vehicles did not properly classify and record all lease payments onto their accounting system and the State's leave accounting system (LAS). We noted several invoices incorrectly classified as lease payments, and actual lease payments classified as non-leases. The Commonwealth's Accounting Policies and Procedures (CAPP) manual provides guidance for proper classification and reporting of leases. Motor Vehicles should follow these guidelines to ensure the proper recording and reporting of all leased asset data in agency and Commonwealth financial statements in accordance with generally accepted accounting principles.

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

December 6, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
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, 2002. 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 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 finding "Follow Established Procedures for Reporting and Recording Fixed Assets." Accordingly, we included this finding in the section titled "Internal Control 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 January 6, 2003.

AUDITOR OF PUBLIC ACCOUNTS

NJG:whb
whb:29

COMMONWEALTH of VIRGINIA
Department of Motor Vehicles
2300 West Broad Street

Asbury W. Quillian
Commissioner

Post Office Box 27412
Richmond, VA 23269-0001
866-DMV-LINE or
800-435-5137

January 10, 2003

The Honorable Walter J. Kucharski
Auditor of Public Accounts
101 North Fourteenth Street
Richmond, Virginia 23219

Dear Walt:

My staff and I appreciate the work of your staff in preparing the Fiscal Year 2002 Audit Report for the Department of Motor Vehicles (DMV). I especially want to thank you for the time that you personally gave in the finalization of the Report and, your willingness to include the DMV Response in the Audit Report.

This response does not address the management points included in the Report. The Corrective Action Plan to resolve these is already being developed. Therefore, the response addresses the lengthy discussion contained in the Agency Background section.

There can be no question that DMV has long standing financial challenges in dealing with the delivery of services to the state's citizens. This has come about from circumstances that have occurred over many years. Many of these circumstances are correctly described in your Report. However, there are two statements with which we do not agree.

The first is the statement that DMV had a deficit of $8 million. Except for one payment, all of DMV's payables to vendors were paid on time in July and August, as reported by the Department of Accounts. Therefore, it is our opinion that these payables are incorrectly stated as a deficit. DMV did carry forward payables to other state agencies of approximately $2 million and, was required to obtain a Treasury loan of $2 million to cover the decrease in revenue that was experienced during the year. The amount owed to state agencies has been paid and the Treasury loan will be repaid by June 30, 2003. In addition, there were accrued receivables of $2.4 million that offset these payables.

Fax: (804) 367-6631 TDD: 1-800-272-9268 E-mail: commish@dmv.state.va.us Web site: www.dmvnow.com

The second statement that we would like to clarify regards the "borrowing" of money from other funds. In addition to the DMV Special Fund, DMV has budgeted appropriations from other funds (Uninsured Motorist Funds, Motor Carrier Special Fund, Motorcycle Rider Safety Training Fund, and Federal funds) to provide resources for operations. The use of these appropriations does not mean that any monies are "borrowed" from these funds. By authority of the Appropriation Act, DMV transferred on July 1 funds that are earmarked for operation of the Uninsured Motorist Program, to the DMV Special Fund. Also, funds for the Weigh Station Program were transferred, as has been an accepted practice. There is no restriction in the Appropriation that prohibits DMV from these transfers or to be held to spending available funds on an allocated basis. These management actions provided a funding source for the months of July and August. These other special funds are used by DMV in the same way as any other special fund appropriation. First, appropriations must be approved and available then, fund balances must be available. Expenditures are made consistent with the State's budgeting and accounting policies.

Over the past sixteen months, my staff and I have made budget reform our Number One priority. However, as all agencies of the Commonwealth have had to reduce their budgets and make sacrifices in providing services, DMV has also had to make sacrifices in it's operations and services. Even before Governor Warner's call for budget reductions, we had halted previously scheduled facility improvements, decreased discretionary spending and, most importantly, left staff positions vacant to achieve savings. These are detailed in the attached response. As stated in your report, DMV may need the assistance of the administration and the General Assembly to maintain service at a rational level. However, in spite of these sacrifices, you can be assured that everyone within DMV will work tirelessly to continue our efforts in reducing expenditures and providing quality service to the citizens of the Commonwealth.

Sincerely,

Asbury W. Quillian

Attachment

Copy: The Honorable Whittington W. Clement
Secretary of Transportation

The Department of Motor Vehicles

Response to the APA Report for FY 2002

Over the past four fiscal years, cash balances in the DMV Special Fund have been a concern to the Department of Motor Vehicles. Ending cash balances decreased from $900,000 in FY1998 to $4,736 in FY2002 (on a cash basis). On an accrual basis, there were normal operating expenditures carried over from FY2002 to FY2003. These were for goods and services received in June but not paid until July or August, depending on the date the invoice is received. As the records of the Department of Accounts indicate, all but one of these payments was paid on time. There were some payments owed to other state agencies amounting to $2 million that were carried over and not paid on time. The DMV Special Fund also had $2.4 million in accrued receivables at June 30 to use for payments in FY03. Therefore, DMV did not have a deficit of $8 million at June 30, 2002.

However, the lack of a working cash balance at the end of the fiscal year is an impediment to effective operations. This problem began in FY98 with the last major transfer of $9 million from the Special Fund. See table below for a complete history of transfers**.**

Transfer of DMV Special Funds to the General Fund

Fiscal Year	Part 3 Internal Cost Savings	Part 3 Direct Transfers	Subtotal	Part 3 Central Agency Recovery	Total
2002	$1,718,166	$1,436,796	$3,154,962	$958,258	$4,113,220
2001	$351,022	$0	$351,022	$958,258	$1,309,280
2000	$583,189	($1,800,000) (a)	($1,216,811)	$958,258	($258,553)
1999	$705,925	$2,900,000 (a)	$3,605,925	$958,258	$4,564,183
1998	1,779,343	8,961,615 (b)	10,740,958	912,475	11,653,433
1997	0	0	0	1,166,091	1,166,091
1996	0	2,504,678 (c)	2,504,678	1,110,448	3,615,126
1995	0	0	0	1,110,448	1,110,448
1994	0	16,877,787	16,877,787	280,847	17,158,634
1993	0	13,840,352	13,840,352	280,847	14,121,199
1992	7,408,841	5,364,828	12,773,669	255,315	13,028,984
1991	1,330,822	4,412,822	5,743,644	255,315	5,998,959
1990	598,476	0	598,476	255,315	853,791
1989	0	5,617,000	5,617,000	0	5,617,000
Totals	$14,475,784	$60,115,878	$74,591,662	$9,460,133	$84,051,795

NOTE: (a) In FY99, DMV transferred $2,900,000 to the Department of Transportation as a part of funding
for the National Air and Space Museum Extension capital project, a project that had previously been
approved and funded with non-transportation funds. In FY00, $1.8 million was returned to the DMV special fund.

(b) The transfer of $8,961,615 to the General Fund was used by the Department of State Police
for law enforcement purposes, normally an activity funded from state general funds.

(c) The transfer of $2,504,678 to the General Fund was offset by a corresponding increase of
General Fund and Trust/Agency appropriations for the Department of Transportation (see Item 605, Chapter 853, 1995 Acts of the Assembly)

*Accordingly, over the 14-year period -- FY89 through FY02 -- approximately $71.0 million will have
been transferred from the DMV Special Fund to the General Fund of the Commonwealth, exclusive
of central agency cost recoveries, the $2.5 million transfer in FY96, and the net of $1.1 million transfer in FY99/FY00.*

Prior to these transfers, DMV maintained a small operating balance on hand at each year-end. These transfers reduce agency resources and deplete any cash balance to pay everyday expenses or reserves to carry over into the new fiscal year. From a business standpoint, at a minimum, there should be operating capital sufficient to pay one payroll and the average of one-half months operating expenses-- a total of approximately $6 million. Cash balances reached the point in FY02 where DMV requested and received a short-term treasury loan for $2.0 million to be paid back in FY03. FY02 revenues had been significantly affected by the downturn in the economy and the effects of the terrorist attack on September 11th. Three of DMV's major funding sources, Vehicle Registrations ($1 million), Drivers Licenses ($1.3 million) and Vehicle Rental Tax ($1 million) were below forecast. The Vehicle Rental Tax is very vulnerable to economic conditions; therefore its rapid decrease was a direct result of the terrorist attack.

This situation was not brought about by the 2002 budget reductions, but was rather the cumulative result of a series of events during the past eight years. Attached are charts (see Appendix A) reflecting revenue and expenditure trends of the agency since Fiscal Year 1995. Also included are graphs that show the relationship of the transfers of balances from the DMV Special Fund to year-end cash balances for this key source of revenue. Also included is a graph that shows the percentage growth in revenue and expenditures since 1995. This clearly shows that the agency initiated spending reductions in FY01 to decline in revenue.

A fundamental reason for the overall condition goes back to 1995 and the management decisions and initiatives that were begun at that time. During those years of high revenue growth, DMV embarked on an intensive service enhancement program. The impetus for this program was not merely to meet levels of service required by growth in population and vehicles, but to achieve "The Ultimate in Customer Service" which was the agency's vision statement at that time. As stated in a report to the Senate Finance and House Appropriation Committees in December 2000,

> "In 1994, the Virginia Department of Motor Vehicles (DMV) launched a radical new approach to delivering government services. Following this approach, DMV shed the traditional regulatory and bureaucratic mantle of state government and donned a new identity as a service provider. As novel as any new management theory, the Virginia DMV's philosophy for delivering government services put the citizen foremost and government regulations and processes secondary….We have invested heavily in technology, facilities and human resources in order to provide a level of service that rivals the service of the best private sector firms."
>
> DMV Short- and Long-Term Financial Status, December 2000

The program was successful, but incurred large expenditures and debt resulting in future obligations. This was fueled by numerous additions to appropriations beyond those included in the State Budget, as shown in the table below.

Fiscal Year	Appropriations per Acts of Assembly	Additional Agency Appropriation Requests	Final Adjusted Appropriations	Percentage Increase
FY99	113,743,277	11,704,944	125,448,221	10.3%
FY00	118,887,165	22,528,289	141,415,454	18.9%
FY01	130,584,965	19,004,553	149,589,518	14.6%
FY02	130,648,468	22,588,288	153,236,756	17.3%

These additional appropriations allowed spending at unprecedented levels to achieve this vision. While laudable, and receiving an unparalleled level of satisfaction from the citizens of Virginia, previous gubernatorial administrations and the legislature, these spending decisions were made under the same assumption as other statewide decisions in the past administration - that revenue would continue to increase at record-setting levels into the future. These extensive expenditures have now left DMV in a financially untenable position that has been exacerbated by the current statewide economic situation. This condition was communicated to past and current administrations in the following documents:

Critical Financial Issues, 2002-2004 Agency Budget Submission
Short- and Long-Term Financial Status, Report to the Senate Finance and House Appropriations Committees, December 1, 2000
DMV Annual Report, June 30, 2000
DMV Annual Report, June 30, 1999
Strategic Briefings for the past 4 Biennia – Agency Budget Proposals

In addition, over this period of time, DMV has been given additional responsibilities for the administration of the Personal Property Tax Relief Act (PPTRA), the Motor Voter program and financial and administrative duties for five other state agencies. In the annual count of transactions performed, shown in the Audit Report, PPTRA transactions are not included. As a result of PPTRA, in Calendar Years 1999 through 2001, 18.8 million vehicle records were processed. Of those, 106,240 records were handled as uncertified records and 89,249 were duplicates (vehicles claimed by two or more localities). The uncertified and duplicates must be resolved with the localities on a manual basis. These responsibilities were absorbed with no additional revenue provided. Since FY2000, these programs have added $9 million in expenditures to DMV's costs**.** Over the years, these programs have taken away funding that could have been used for core services.

In addition to the DMV Special Fund, DMV has budgeted appropriations from other funds (Uninsured Motorist Funds, Motor Carrier Special Fund, Motorcycle Rider Safety Training Fund, and Federal funds) to provide resources for operations. <u>The use of these appropriations does not mean that any monies are "borrowed" from these funds.</u> By authority of the Appropriation Act, DMV transferred on July 1 funds that are earmarked for operation of the Uninsured Motorist Program, to the DMV Special Fund. Also, funds for the Weigh Station Program were transferred, as has been an accepted practice. There is no restriction in the Appropriation that prohibits DMV from these transfers or to be held to spending available funds on an allocated basis. These management actions provided a funding source for the months of July and August. These other special funds are used by DMV in the same way as any other special fund appropriation. First, appropriations must be approved and available then, fund balances must be available. Expenditures are made consistent with the State's budgeting and accounting policies.

However, the agency's cash position must be rectified. For the last sixteen months, the current management has made spending reduction the Number One priority. Even before Governor Warner's call for budget reductions to meet the worsening economy, previously scheduled facility improvements were halted, discretionary spending was decreased and, personnel cost was reduced. Immediate results were seen in cost reductions from FY01 to FY02 in personnel ($700,000), facility maintenance ($443,000), equipment ($705,000) and discretionary spending ($284,000). To date, technology projects have been halted or scaled back resulting in further cost savings. Appendix B provides more specific details on budget reduction activities.

DMV's management will continue to work to resolve the cash flow problems that it faces. Every cost saving option will be examined and, at the same time, better ways to provide service to the public will be sought. The agency will focus its efforts on reformed service delivery methods that not only enhance service to the citizen, but also emphasize <u>efficiency</u> in operations and take advantage of the tools of the information age in serving our customers. Examples of these efforts include:

- Establishment of license agents to process vehicle transactions in localities;
- Developing enhancements to the automated driver testing system with DMV Staff;
- Promoting further use of the Internet;
- Providing 2-person travel teams to process driver transactions; and,
- Providing "cyber centers" within existing customer service centers where customers can transact business without requiring direct agent contact.

Governor Mark Warner frequently says, "What is measured gets done." DMV realizes this concept and now utilizes a monthly scorecard, as part of the strategic plan, to measure performance in key operational and financial areas. The executive staff reviews this scorecard and, the management of that area must explain any deficiencies to the targets. In addition, comprehensive monthly financial reports, prepared by DMV's financial staff, will continue to be reviewed, along with the agency's Prompt Payment Compliance Reports, by senior management. From this information, revenue and spending decisions are made to ensure that the agency is within budget and will meet its year-end targets. In the future, the Department will further emphasize cash flow management in its budgeting process and planning for agency obligations throughout the year. Quarterly meetings will be held with the Secretary of Transportation and, semi-annually with the Chief of Staff, to review DMV's financial performance and position. These actions will ensure that the agency's current management continues to measure its performance and, to practice sound financial management and business practices.

The above responds to the concerns stated in the Agency Background section of the Audit Report. The Auditor's Internal Control and Compliance Findings are being addressed through the required corrective action plan that will be submitted to the State Comptroller.

DEPARTMENT OF MOTOR VEHICLES

Agency Operating Expenditures - All Funds
Fiscal Years 1995 through 2002

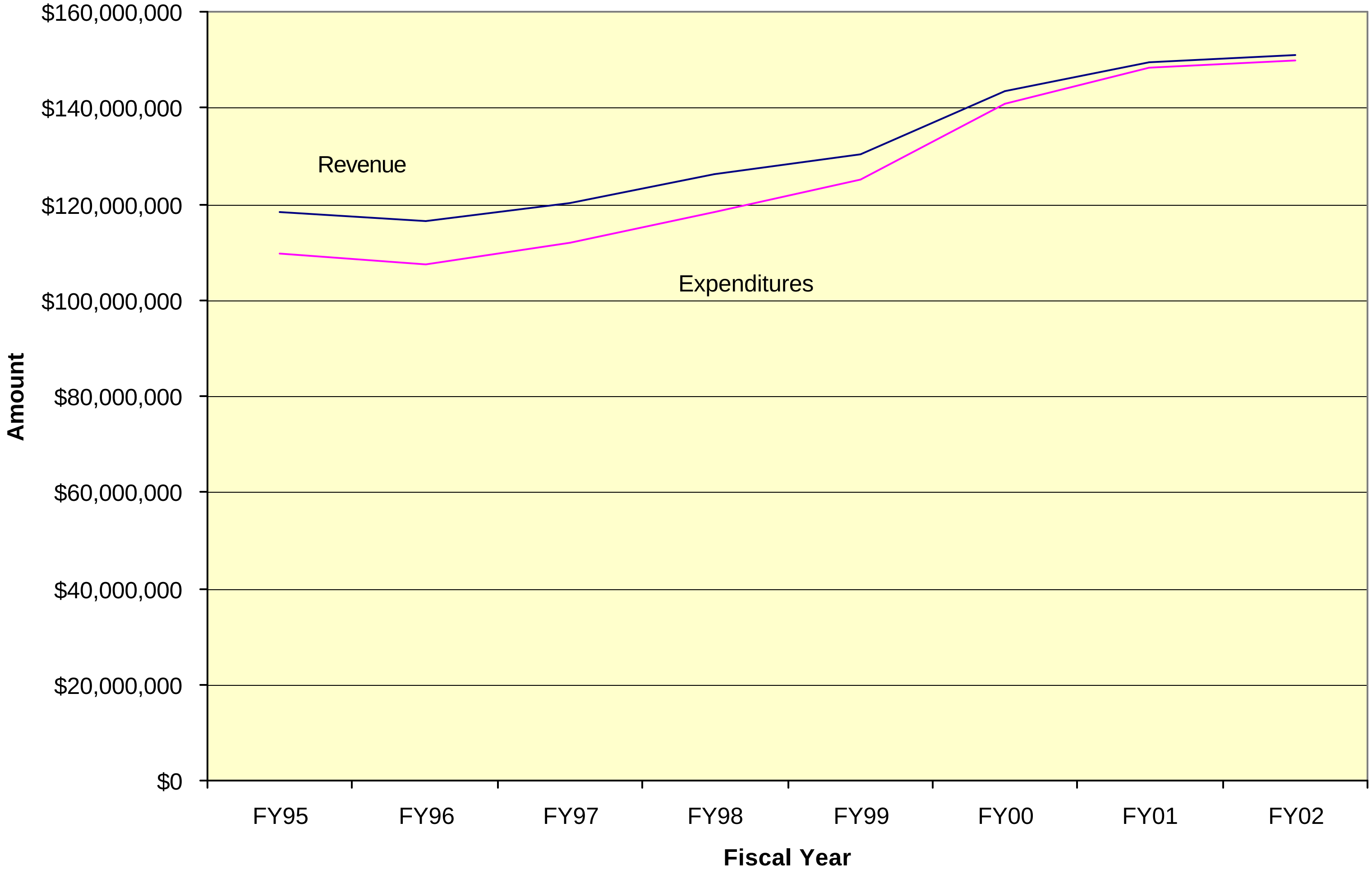
	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY95 - FY02 Avg Annual Growth
o Personnel - Total	*70,752,045.02*	*66,256,738.52*	*65,379,220.84*	*75,169,178.37*	*80,193,044.58*	*87,521,830.83*	*93,779,422.97*	*93,058,876.32*	4.0%
- Salaries/Fringe Benefits	67,057,147.81	62,753,605.29	62,016,062.34	71,293,441.35	75,517,130.69	81,433,331.78	86,450,793.76	87,428,157.16	3.9%
- Overtime	495,845.57	729,697.24	645,635.40	898,034.97	789,395.65	956,299.03	1,047,751.61	710,758.95	5.3%
- Wage	3,199,051.64	2,773,435.99	2,717,523.10	2,977,702.05	3,886,518.24	5,132,200.02	6,280,877.60	4,919,960.21	6.3%
o Non-Personnel - Total	*43,060,974.67*	*47,313,276.44*	*53,265,582.55*	*49,980,208.50*	*54,656,823.19*	*61,728,062.25*	*66,447,602.79*	*67,492,975.11*	6.6%
- Technology	16,332,117.23	19,461,074.37	19,950,998.87	16,314,847.89	20,215,268.88	23,544,504.92	23,208,275.96	24,511,584.13	6.0%
- Facilities	7,241,006.09	8,188,124.12	11,236,905.67	11,219,186.41	11,494,285.28	12,223,674.72	12,294,950.16	11,541,716.35	6.9%
- License Plates	6,114,656.00	6,582,757.04	6,347,007.55	7,868,874.02	6,811,384.55	8,175,663.71	8,006,868.99	7,191,116.30	2.3%
- Postage & Mailing Srvcs	4,941,744.62	4,179,605.68	5,031,261.55	4,072,431.59	4,579,976.85	5,005,550.49	5,230,745.47	5,464,757.95	1.4%
- Contractual	4,518,286.43	4,656,501.57	6,517,013.02	7,020,230.97	7,846,538.57	7,757,042.63	9,247,537.77	12,498,581.18	15.6%
- Other	3,913,164.30	4,245,213.66	4,182,395.89	3,484,637.62	3,709,369.06	5,021,625.78	8,459,224.44	6,285,219.20	7.0%
Total - DMV Operations	113,813,019.69	113,570,014.96	118,644,803.39	125,149,386.87	134,849,867.77	149,249,893.08	160,227,025.76	160,551,851.43	5.0%
% Change	-----	-0.2%	4.5%	5.5%	7.8%	10.7%	7.4%	0.2%	
- Truck Weigh Station Prog	-	-	-	-	-	-	11,123,107.08	16,612,297.28	0.0%
Total - All Agency Operations	113,813,019.69	113,570,014.96	118,644,803.43	125,149,386.92	134,849,867.85	149,249,893.19	171,350,132.91	177,164,148.71	6.5%
% Change	-----	-0.2%	4.5%	5.5%	7.8%	10.7%	14.8%	3.4%	

Agency Operating Revenue and Expenditures - DMV Special Fund (0454)

	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY95 - FY02 Avg Annual Growth
DMV Special Fund Expenditures	109,590,375.24	107,411,859.94	112,085,541.87	118,417,708.02	125,143,030.15	140,942,901.01	148,262,294.31	150,017,079.88	4.6%
% Change	-----	-2.0%	4.4%	5.6%	5.7%	12.6%	5.2%	1.2%	
% of DMV Operating Exper	96.3%	94.6%	94.5%	94.6%	92.8%	94.4%	92.5%	93.4%	
DMV Special Fund Revenue	118,276,703.13	116,470,293.48	120,056,309.77	126,108,144.91	130,172,295.56	143,630,479.42	149,649,778.46	150,943,157.78	3.5%
% Change	-----	-1.5%	3.1%	5.0%	3.2%	10.3%	4.2%	0.9%	
% of DMV Operating Exper	103.9%	102.6%	101.2%	100.8%	96.5%	96.2%	93.4%	94.0%	

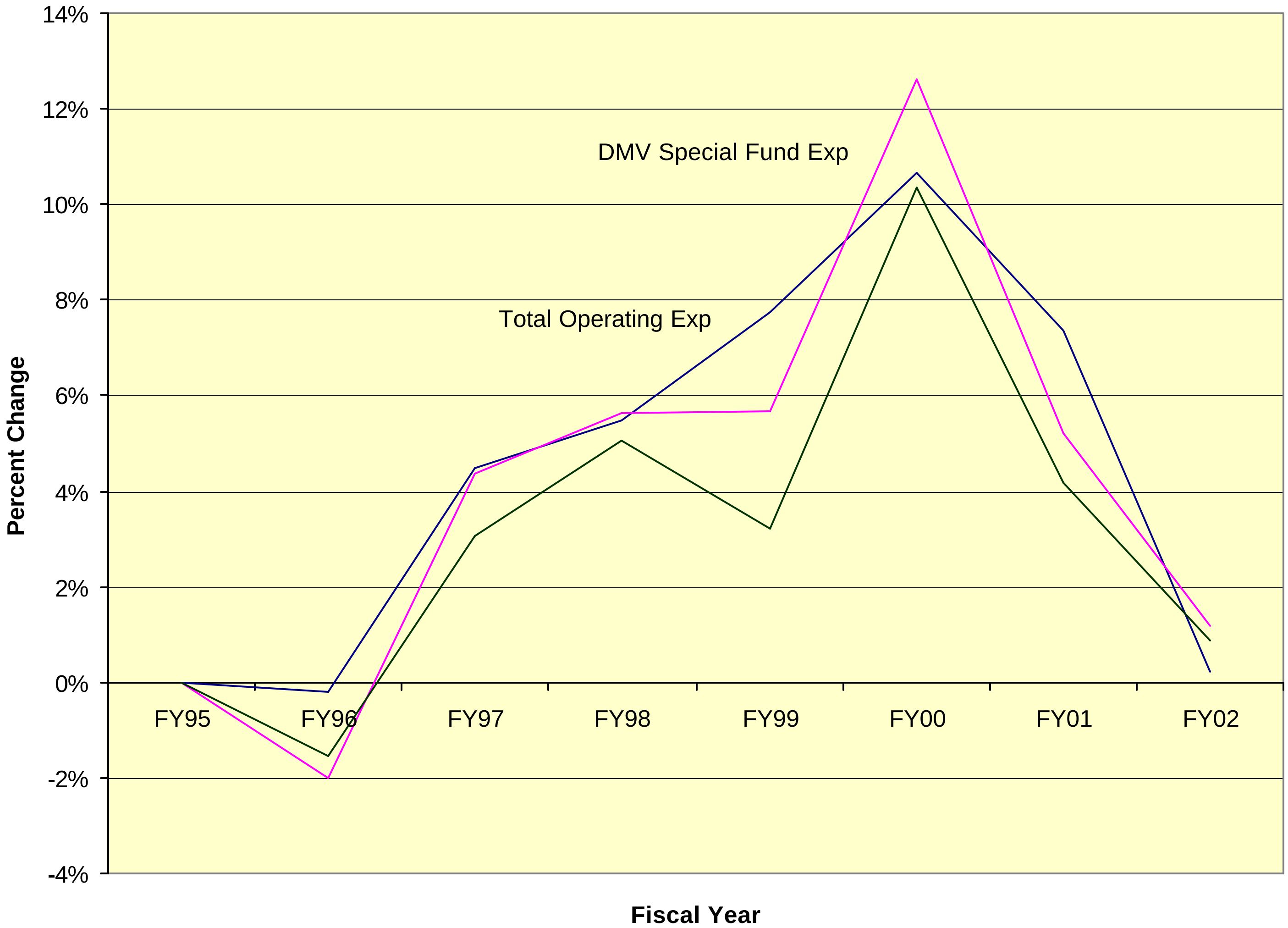
DEPARTMENT OF MOTOR VEHICLES

DMV Special Fund (0454) Revenue and Expenditures

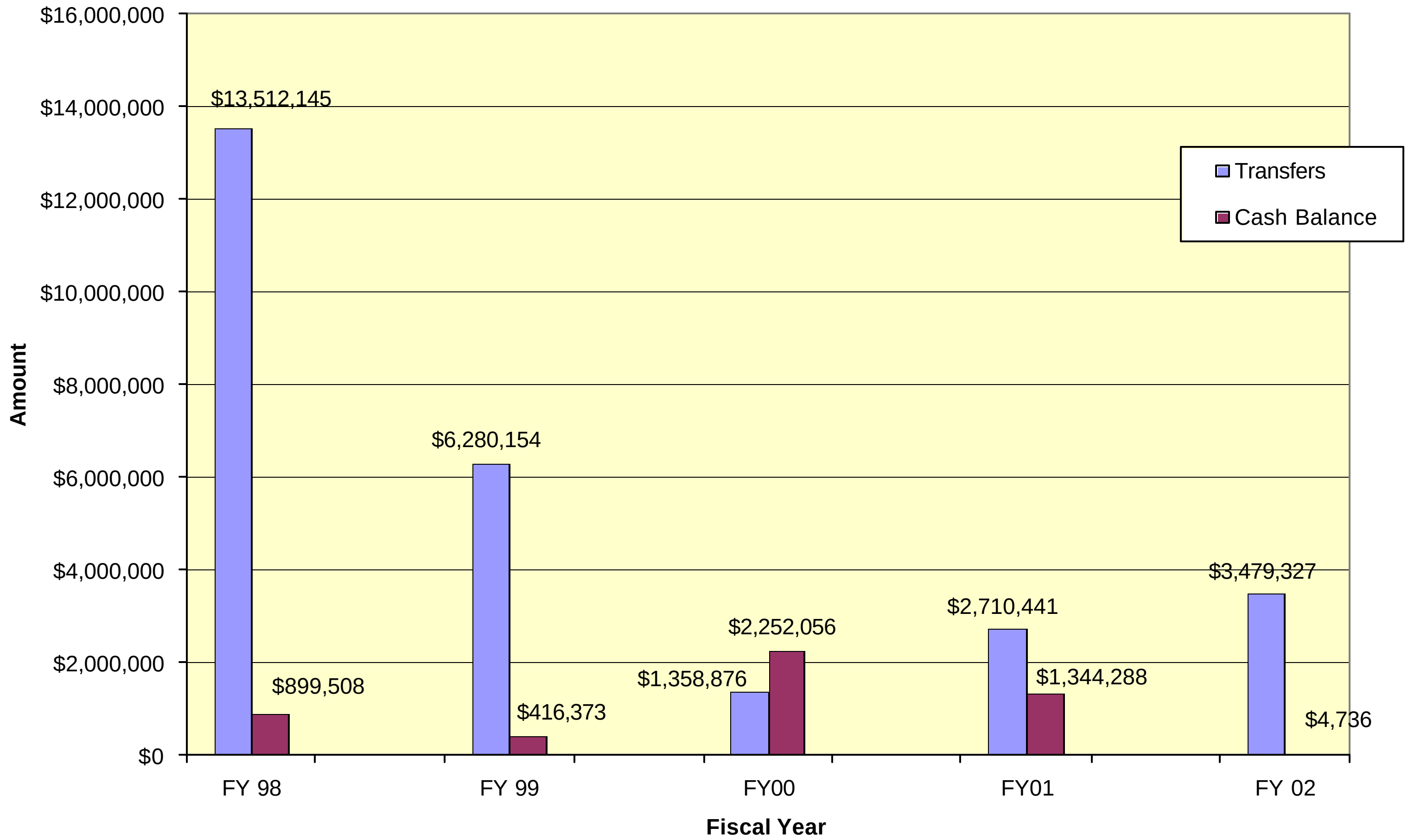


DEPARTMENT OF MOTOR VEHICLES

Percentage Annual Growth in Revenue & Expenditures



DEPARTMENT OF MOTOR VEHICLES
DMV Special Fund
FY 1998 - FY 2002



APPENDIX B

Actions Taken to Reduce Agency Expenditures

<u>DMV Facilities</u> – A freeze was placed on planned **Capital** and **Operating** facility projects that were not obligated under contract. We identified over 14 projects that were not initiated in FY02, as follows:

• Lynchburg Parking Lot Renovation	$145,000
• Lynchburg CDL Test Area	$175,000
• Hampton CDL Test Area	$150,000
• Winchester CDL Test Area	$125,000
• Staunton Parking Lot Renovation	$175,000
• Lynchburg D/U Canopy (Blanket)	$ 85,000
• Norfolk/Widgeon HVAC Replacement	$130,000
• Norfolk/Widgeon Roof Replacement	$115,000
• Tappahannock CSC Renovation	$225,000
• Bedford CSC Change Order	$ 15,000
• Woodstock CSC Renovation	$ 25,000
• Lexington CSC Change Order	$ 15,000
• Staunton CSC Renovation	$ 35,000
• West Henrico CSC Renovation	$ 40,000
Savings:	$1,455,000

<u>Personnel –</u> The agency managed personnel expenditures by reducing wage positions and overtime. The wage level was reduced by 18 FTE, and a freeze of 30% was imposed on the overtime budget for the balance of the fiscal year.

• Reduced 18 wage positions	$ 387,200
• Reduced Overtime	$ 312,800
Total	**$ 700,000**

<u>Travel</u> – Specific actions were taken to reduce agency discretionary expenditures, such as travel/convention and education services. Travel expenditures were limited to routine business travel and costs associated with delivery of services.

• Eliminating travel associated with conventions and conferences	$ 300,000
Total	$ 300,000

<u>Office Furnishings/Equipment -</u> All non-essential equipment and office furnishings expenditures were frozen and not purchased as planned.

• Office Furnishings/Equip	$283,100
• Equipment	$350,100
Total	$705,200

Total Savings $3,160,200

DEPARTMENT OF MOTOR VEHICLES
Richmond, Virginia

Asbury W. Quillian IV, Commissioner

Philip Vasquez, Deputy Commissioner

John C. Christian Jr., Controller

Larry E. Harrison, Budget Director