

## **AUDIT SUMMARY**

Our audit of the Department of Motor Vehicles for the year ended June 30, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- an internal control matter we consider a reportable condition;
- no material instances of noncompliance with applicable laws and regulations required to be reported under Government Auditing Standards; and
- adequate implementation of corrective action on prior audit findings, except as reported in the finding entitled “Improve Program Change Procedures for Testing.”

Our audit findings include issues that we explain in detail in the section entitled “Internal Control Findings and Recommendations.”

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AGENCY OFFICIALS

February 5, 1999

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

The Honorable Richard J. Holland  
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, 1998. We conducted our audit in accordance with generally accepted government auditing standards.

#### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review the Department's accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, adequacy of the internal control structure, and 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 other such 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:

Revenues  
Expenditures

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. 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 policies and procedures 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 an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or the effectiveness of the design and operation of policies and procedures 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 the "Agency Background" came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving the internal control structure and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the the Department 's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. This reportable condition is discussed in the section entitled "Internal Control Finding and Recommendation." We believe the reportable condition is not a material weakness.

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

The Department has taken adequate corrective action with respect to audit findings reported in the prior year except as included in the finding "Improve Program Change Procedures for Testing."

We discussed this report with management on April 2, 1999.

AUDITOR OF PUBLIC ACCOUNTS

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## INTERNAL CONTROL FINDING AND RECOMMENDATION

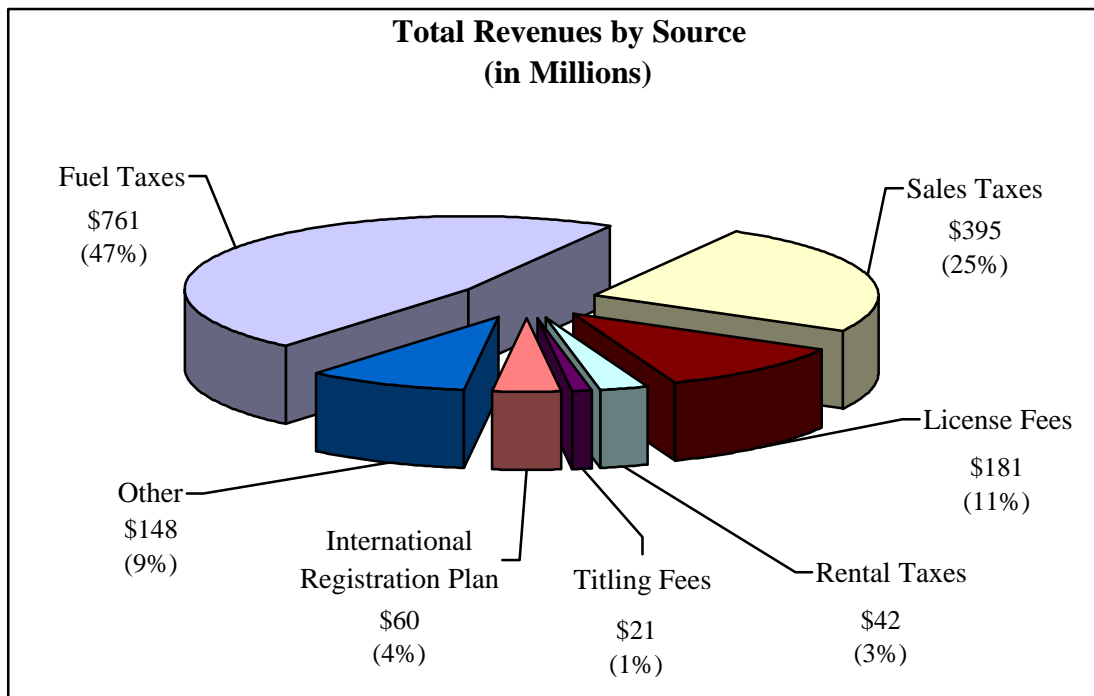
### Improve Program Change Procedures for Testing

Motor Vehicles does not consistently document the testing of program changes for the CSCNet System or Citizens Service System (CSS). The Customer Service Centers use the CSCNet system to input transactions into the driver and vehicle databases; to automate the Customer Service Center's processes in the calculation of fees; to track and report funds collected; and to inventory controlled materials such as titles, plates, and decals. The CSS maintains demographic and financial data pertaining to Motor Vehicle's customers. The lack of adequate documentation of the testing performed results in the lack of an audit trail. Without adequate documentation, Motor Vehicles would have to repeat all testing whenever a problem exists with a program change after moving it into production. Motor Vehicles should define documentation standards for testing program changes and develop procedures to implement the standards.

## AGENCY BACKGROUND

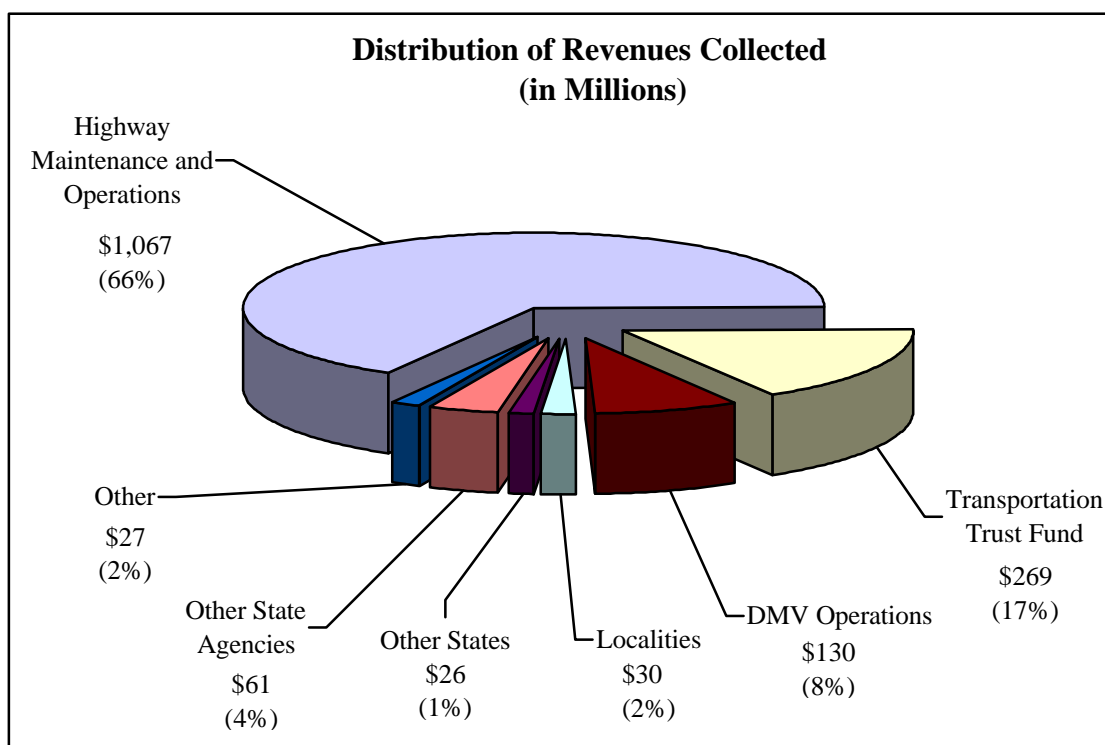
### Revenue Collections

Motor Vehicles regulates the registration, licensing, and operation of motor vehicles and drivers within the Commonwealth. Motor Vehicles collected over \$1.6 billion in fiscal year 1998 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 below). Over 83 percent of transfers for fiscal 1998 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. Motor Vehicles transfers revenues 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 operations cost approximately \$130 million.



## Personal Property Tax Relief Act

The 1998 General Assembly enacted the Personal Property Tax Relief Act which provides tax relief to citizens and their families on a portion of personal property taxes paid on the first \$20,000 of value for qualifying vehicles. The Act will phase out Virginia's personal property tax over five years. Qualifying vehicles for the program include privately owned cars, panel and pick-up trucks, and motorcycles.

Localities billed taxpayers as usual and collected the personal property tax. The locality sent information on the vehicles' value, tax assessment, and reimbursable amount of tax paid to Motor Vehicles. Motor Vehicles used the information to process checks for owners of all qualifying vehicles, reimbursing them 12.5 percent of the amount of tax paid for the 1998 tax year. In future years, localities will offset tax billings

based on a percentage rate set in the Act, and then receive payments from the state to cover the reduced tax collections. The following table shows the percentage of tax reduced each year:

Tax Year	Percentage
1998	12.5%
1999	27.5%
2000	47.5%
2001	70.0%
2002	100.0%

### Information Systems

Motor Vehicles completed its implementation of the Service 2000 computer system in July 1998. This project cost approximately \$26 million and replaced the IBM Series I and computing infrastructure used to support customer service center operations.

Motor Vehicles is currently implementing 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 \$800,000. PIPS has the following five modules and shown is Motor Vehicles' planned implementation schedule.

- Purchasing, General Ledger, and Payables – April 1999
- Inventory – May 1999
- Budget – July 1999

### Year 2000

Motor Vehicles has adopted the Year 2000 conversion model developed by the U.S. General Accounting Office. They assessed their computer platforms and identified the necessary steps required to become Year 2000 compliant and changed procurement policies to require purchases of Year 2000 compliant equipment. Motor Vehicles has also contracted with vendors to assist in completing Year 2000 requirements.

Motor Vehicles is also participating in a program from the Department of Personnel and Training where staff critical to the Year 2000 initiative would receive up to a \$10,000 bonus as an incentive to remain with the agency through June 30, 2000. Due to the importance of information systems at Motor Vehicles, they have requested and received approval to give this bonus to approximately 100 of their data processing employees. This plan was implemented in recognition of the fact that modification of automated systems to accommodate the century date change, combined with rapid growth in the use of automated systems, has caused some agencies to experience difficulty in attracting and retaining qualified data processing staff. Also, there is a potential that such problems may become worse as we approach the Year 2000.

### Motor Vehicles' Other Technological Initiatives

- The Q-Matic system, an electronic queuing system, assists with the management of customer traffic in the customer service centers. This system interfaces with Motor

Vehicles Internet page to provide current information on wait times at any customer service center.

- 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 creation of on-line information for access through the Internet provides a personal license plate inquiry and reservation program, addresses and directions to every Motor Vehicles office, and directions on how to process most Motor Vehicles transactions. Drivers can also update their insurance information on-line. Motor Vehicles plans to offer customers the option to renew vehicle registrations and driver's licenses through the Internet beginning in 1999.
- Touch-tone telephones allow customers to renew and pay with a credit card vehicle registrations any time of day, seven days a week. During 1999, Motor Vehicles will expand the use of touch-tone telephones to allow customers to renew their driver's licenses.



DEPARTMENT OF MOTOR VEHICLES  
Richmond, Virginia

Richard D. Holcomb, Commissioner

Asbury W. Quillian IV, Deputy Commissioner

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Larry E. Harrison, Budget Director