

Audit Highlights



Highlights of performance audit report on the Department of Motor Vehicles issued on October 18, 2016. Legislative Auditor report # LA16-19.

Background

The Department of Motor Vehicles (DMV) is a multi-functional agency with responsibilities that include the collection and timely distribution of State Highway Fund revenues and improving traffic safety through licensing, registration, monitoring, and intervention programs. It also assists the State in meeting federal air quality standards, ensuring the integrity and privacy of record information, and protecting consumers and businesses against fraud and unfair business practices.

The Department continues to enhance the use of alternative technologies by providing citizens with the option of conducting various routine transactions, such as vehicle registration renewals, through the internet and kiosks. The Department operates 45 kiosks in DMV offices and partner locations statewide to facilitate renewals of vehicle registrations and driver licenses, provide driver history reports, and reinstate registrations after an insurance lapse.

The DMV collects annually more than \$1 billion and distributes funds pursuant to statutory requirements to the State Highway Fund, state agencies, cities, counties, school districts, and other entities.

Purpose of Audit

The purpose of this audit was to determine whether controls over the revenue distribution processes and the DMV accounting system year-end balances are adequate and evaluate the adequacy of internal controls over the process for depositing collected funds. Our audit focused on revenue distribution spreadsheets and DMV Application balances for fiscal years 2010 to 2015 and receipts deposited in fiscal year 2015.

Audit Recommendations

This audit report contains 10 recommendations to improve controls over revenue distributions, accounting records, and the revenue collection process.

The Department accepted the 10 recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on January 19, 2017. In addition, the six-month report on the status of audit recommendations is due on July 19, 2017.

Department of Motor Vehicles

Summary

The Department needs to improve its internal controls to ensure the accuracy of accounting and revenue distribution records. Certain nonroutine accounting entries were not always completed as required during the fiscal year-end closing process resulting in significantly misstated DMV accounting records. Additionally, certain significant accounting entries were not adequately supported. Although we did not identify significant instances of incorrect amounts being distributed or distributions to the wrong entity, several billion dollars in adjustments were needed to correct accounting and revenue distributions records dating back to fiscal year 2012. Revenue distribution accounting errors in the DMV Application and state accounting system were not identified by the Department because certain reconciliations of DMV records to the state accounting system were not being completed.

While the Department's internal controls over deposits of funds collected were generally operating effectively, some improvements can be made. Specifically, deposit records were not always closed timely to lock deposit transactions in the DMV Application. Records retention policies were also not followed resulting in the premature disposal of 14% of the deposit packets we selected for testing. Additionally, control processes can be improved over fee overrides, timely deposit of revenues, and safeguarding sensitive payment information in certain program areas. Enhancing these controls will help management ensure funds received, sensitive payment information, and related accounting records are properly safeguarded and processed consistent with established policies and procedures.

Key Findings

For fiscal years 2012 through 2014, certain nonroutine, fiscal year-end accounting entries were not made to maintain accurate accounting records. As a result, asset accounts in the DMV Application and distribution spreadsheets were significantly misstated starting in fiscal year 2013. Specifically, certain cash account balances increased, per the accounting records, to more than \$5.6 billion in fiscal year 2015. In comparison, actual collections in fiscal year 2015 were \$1.3 billion, significantly less than the accounting records reflected. The manual accounting entries were not completed due to inadequate policies and procedures and insufficient supervisory oversight. (page 9)

Two of 16 nonroutine accounting entries in fiscal year 2015 were not adequately supported. Staff indicated the two entries, totaling more than \$100 million, were needed to correct an imbalance between the DMV and state accounting records caused by an accounting error. However, the entries did not contain sufficient information for a reviewer to understand the rationale and justification for the adjustment. The supervisory review process over adjusting accounting entries was also not sufficient to determine the accuracy of and reason for each entry. Additionally, policies and procedures did not include sufficiently detailed requirements for what information should be included to support nonroutine accounting entries. Enhancing policies and procedures and supervisory review will help ensure entries are appropriate and reasons for adjustments can be examined to identify potential systemic issues. (page 10)

We identified various accounting discrepancies between DMV records and the state accounting system from fiscal years 2010 through 2015. These discrepancies were not identified by the Department primarily because only 3 of 24 quarterly account-level reconciliations between the state accounting system and the DMV records were completed from fiscal years 2010 through 2015. The discrepancies identified included misclassifications in the DMV distribution records and miscoded expenditure categories in the state accounting system. The findings in this and the two preceding paragraphs did not result in improper distributions of DMV revenues. (page 13)

The records of deposit transactions in the DMV Application were not always closed timely. Deposit records must be closed in the DMV Application by DMV fiscal staff to lock the transaction in the system, after verification of the accuracy of the deposit record. When not closed, inadvertent or intentional modifications to deposit records in the system could occur. We did not identify any such instances of improper modifications to records in the 350 deposits tested, but the potential for this to occur exists due to untimely closing of records. (page 18)

The DMV did not retain original deposit documentation for 50 of the 350 (14%) selected deposit dates as required by DMV policy. In some instances, the recreated documentation did not provide enough information to determine the date funds were received or the timeliness of deposits. Improved supervisory oversight would help identify deviations from policies designed to protect the integrity of financial accounting records. (page 19)