

STATE OF NEVADA

Performance Audit

Department of Motor Vehicles

2016



Legislative Auditor
Carson City, Nevada

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)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Department of Motor Vehicles. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes 10 recommendations to improve controls over revenue distribution records, accounting records, and certain revenue collection processes. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

Rocky Cooper, CPA
Legislative Auditor

September 14, 2016
Carson City, Nevada

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Introduction

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's mission also includes the modernization of DMV services through technology, innovation, customer service, and training while protecting the driving public through licensing and intervention 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 Department is organized into eight divisions. Exhibit 1 provides a brief overview of each division's primary responsibilities.

DMV Divisions and Related Responsibilities

Exhibit 1

Division	Roles and Responsibilities
Director's Office	Sets overall policy and direction of the agency along with public outreach and education, employee training, personnel services, kiosks, and the Office of Administrative Hearings.
Administrative Services	Performs all accounting for revenue collection and disbursement, and support services including purchasing, payroll, internal review, facilities management, warehousing, and mail.
Field Services	Responsible for direct customer service operations at 18 offices statewide that issue vehicle titles, insurance reinstatements, vehicle registrations, and driver licenses. It also oversees branch offices contracted out to and operated by county assessors and recorders in seven counties that perform registration services.
Central Services and Records	Oversees alternative services through mail, web, and third party vendors. It also is responsible for the "NV Live" insurance verification program, title production, and the license plate factory. Records Search is responsible for researching and disseminating driver license and vehicle registration information.
Compliance Enforcement	Licenses and regulates businesses including auto shops, car rental agencies, body shops, salvage and wrecking yards, emission inspection stations, and driving schools. Compliance Enforcement also investigates cases of fraud and identity theft particularly as they relate to the issuance of driver licenses and vehicle titles.
Motor Carrier	Issues vehicle registration and fuel licenses for interstate trucking firms and other businesses that operate heavy equipment. It collects all Nevada fuel taxes; licenses motor carriers; and audits motor carriers, fuel users, and businesses engaged in the sale or distribution of motor and other special fuels.
Management Services and Programs	Responsible for development of regulations, desk manuals, requests for proposals, and policies and procedures for the Department. Also supports other divisions in strategic planning, research and legislative interaction.
Motor Vehicle Information Technology	Provides data processing services including applications programming, network support, and operations support.

Source: DMV records.

Funding

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. Exhibit 2 includes revenue totals for fiscal years 2006 through 2015 and the percentage change between fiscal years.

**DMV Annual Revenues and Percentage Change From Prior Year
Fiscal Years 2006 to 2015**

Exhibit 2

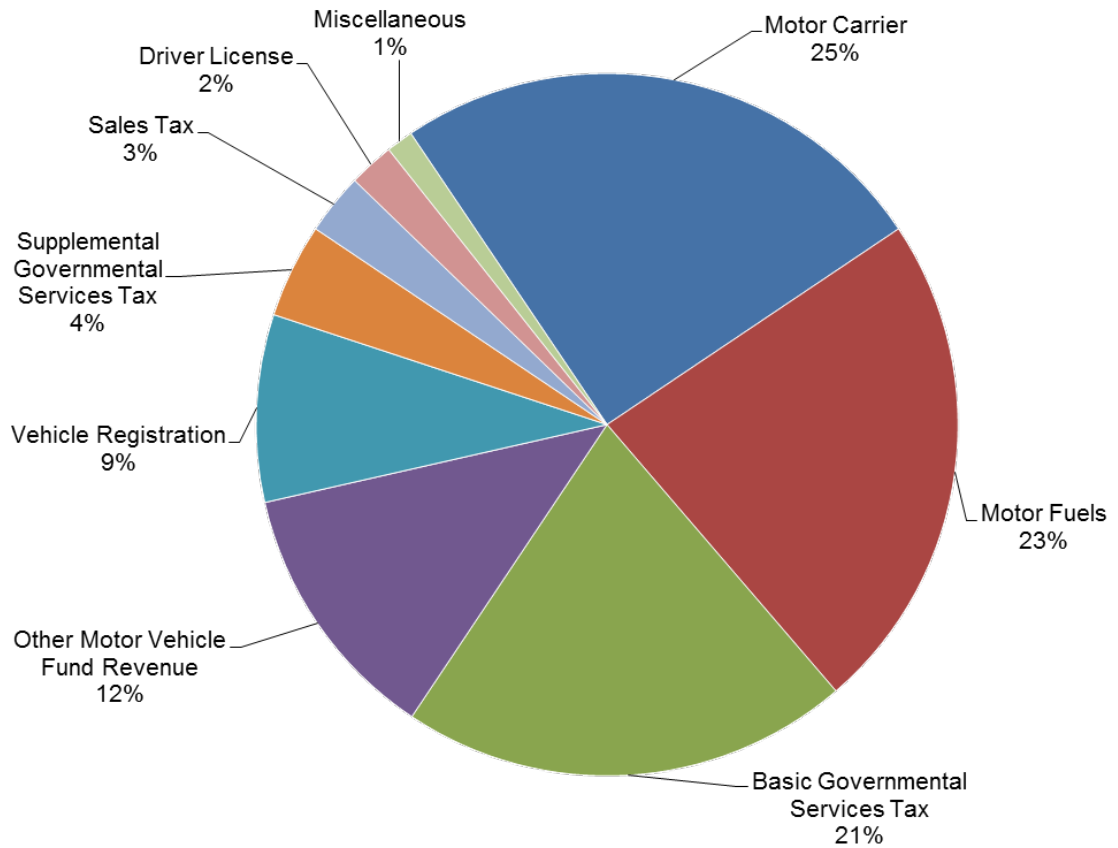


Source: DMV records.

The DMV receives revenues from various sources. Exhibit 3 shows the source of funds by percentage for fiscal year 2015.

**DMV Revenues by Source
Fiscal Year 2015**

Exhibit 3



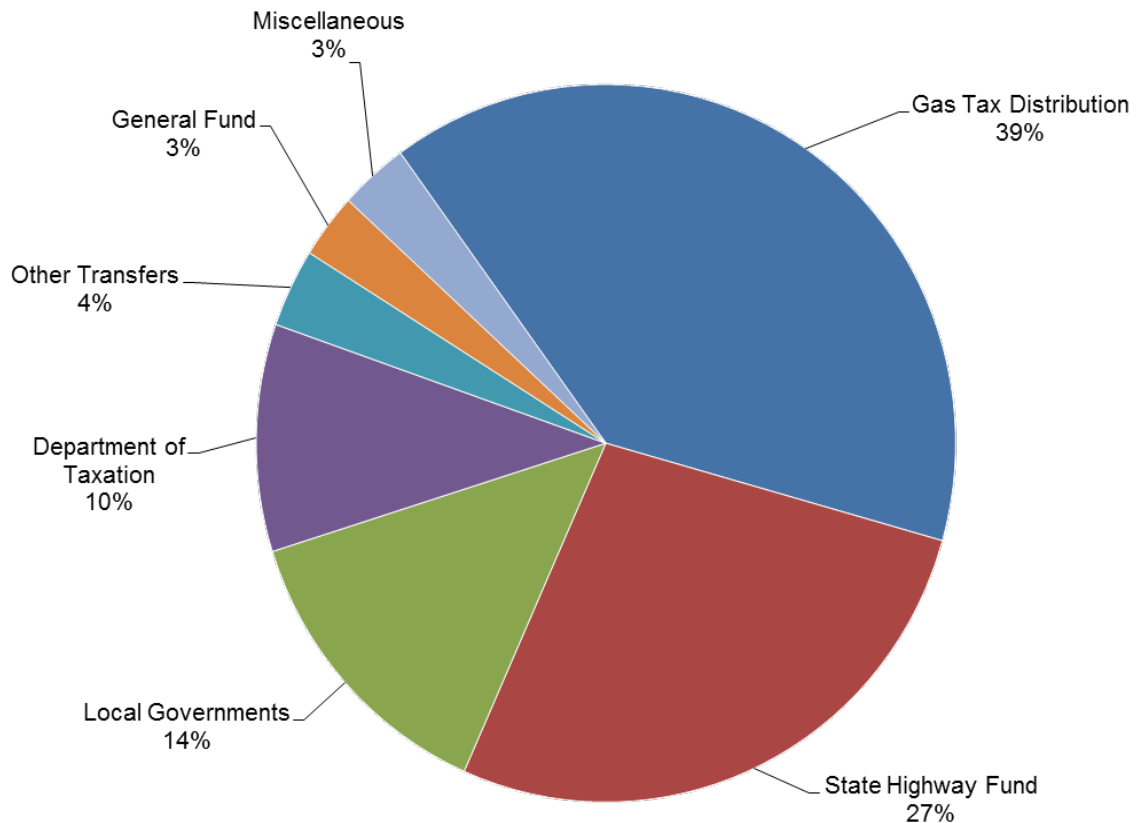
Source: DMV records.

Note: Miscellaneous includes Emission Control, License Plate Factory, Occupational Business Licensing, Off Highway Vehicles, and Other Highway Fund categories.

Exhibit 4 shows the distribution percentages of funds by type.

**DMV Distributions by Type
Fiscal Year 2015**

Exhibit 4



Source: State accounting system.

Note: Miscellaneous includes Transfers to Other State Governments, Special Fund, Emission Control, Records Search, Special License Plate, and Refunds to Motor Carriers and Individuals.

The Department's expendable revenues are capped at 22% of the fees collected (excluding gas tax) from the State Highway Fund per NRS 408.235. However, the Legislature approved a temporary increase to the cap to 32% for fiscal year 2015 because it redirected certain government services tax revenues to the General Fund. For fiscal years 2016 through 2020, the Legislature approved a temporary increase to the administrative cap to 27% due to the increased State Highway Fund appropriations needed to fund the Department's computer system modernization project.

System Modernization Project

The DMV's current information system was implemented in 1999 and includes other unintegrated systems that address the various needs of the Department's divisions. During the 2015 Legislative Session, the Legislature approved funding to replace the Department's aging computer system. The system modernization project is meant to improve customer service by modernizing the transaction workflow, provide for delivery of multiple transactions through alternative services and provide an integrated system. Additionally, the new system will automate the current manual revenue distribution process, improve financial reporting, and strengthen financial controls. The project is anticipated to take about 5 years at a cost of about \$109.4 million and will be funded primarily with State Highway Fund appropriations and a \$1 technology fee charged for each transaction.

Revenue Distribution Process

The Department utilizes reports from its information system, referred to as the DMV Application, and spreadsheets to distribute funds to various recipients. The DMV Application records transactions and revenues by the transaction type and categorizes them in separate accounts based on the nature of the underlying transaction. Reports are run from the DMV Application on a bi-monthly basis and copied into a spreadsheet where formulas and pivot tables are used to generate the necessary journal entries to complete the distributions. Depending on the nature of the distribution, DMV staff or the State Controller's Office input the transactions into the state accounting system to effectuate the transfer of funds through the state accounting system or through an electronic transfer of funds.

Staffing and Budget

The Department operates 18 field offices statewide with its headquarters located in Carson City. The Department also operates 45 kiosks across the state at various locations to provide additional options for citizens to complete certain transactions. The Department was authorized 1,259 full-time equivalent positions as of the end of fiscal year 2016. This included 75 new positions approved by the Legislature in 2015 intended to help alleviate wait lines in metropolitan field offices.

Scope and Objectives

The scope of our audit included a review of the process for depositing receipts during fiscal year 2015. In addition, the scope included a review of revenue distribution spreadsheets and balances recorded in the DMV Application for fiscal years 2010 to 2015. The objectives of our audit were to:

- Determine whether controls over revenue distribution processes and internal accounting records are adequate.
- Evaluate the adequacy of internal controls over the process for depositing collected funds.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Improved Controls Needed to Ensure Accounting and Revenue Distribution Records Are Accurate

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 distribution 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.

Our test work over the revenue distribution process and accounting records was initiated after we identified unusual balances in the Department's accounting records. While our testing found no instances of fraud or abuse, the manual nature of the distribution process using spreadsheets posed an elevated risk for inaccuracies and errors. Additionally, controls over accounting for significant nonroutine accounting entries and distributions are important considering the Department collects and distributes more than \$1 billion each year. Inaccuracies in accounting records have the potential to impact various entities including state agencies, school districts, and local governments. Additionally, considering the Department is developing a modern accounting and information system, control deficiencies should be

rectified promptly to ensure proper control processes are incorporated into the new system.

Controls Over Nonroutine Accounting Entries Need Improvement

Improved control procedures are needed over nonroutine, fiscal year-end accounting entries in the DMV Application and distribution spreadsheets. Certain necessary accounting entries during fiscal years 2012 through 2015 were not made causing account balances in the DMV accounting records to be inaccurate. Additionally, improvements are needed to supervisory review processes to ensure accounting entries are properly supported and discrepancies in accounting records are identified and rectified timely. Although the errors we identified did not impact the distribution of funds to recipients, they did result in discrepancies in Department accounting records and significant differences between DMV and state accounting records. Inaccurate accounting records may result in management relying on incorrect information when making decisions.

The DMV accounting records require manually generated journal entries to maintain accurate accounting records. The DMV Application captures transaction information and categorizes revenues according to the nature of the transaction. However, to prepare distributions, DMV utilizes spreadsheets and formulas to summarize revenues into the necessary distribution journal entries. Manually generated accounting entries are also required to maintain accurate accounting records in the DMV Application and distribution spreadsheets. For example, at the beginning of a new fiscal year, prior balance sheet accounts must be carried forward to the new year in the system through an accounting entry. Additionally, at the end of the fiscal year, the balances that were carried forward must be reversed, leaving the actual current year balances at year end. When these entries are not made, DMV Application and distribution records become inaccurate and do not reflect actual balances.

Necessary Accounting Entries Were Not Always Completed

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 insufficient supervisory oversight and inadequate policies and procedures. While supervisors over this process reviewed and approved the closing entries, the review was not sufficient to ensure all of the necessary entries were prepared. The instructions manual detailing the year-end accounting closing process was informal and did not contain all pertinent steps required to properly close the fiscal year in the Department's accounting records. Additionally, the Revenue Section desk manual contained a section for year-end processes but also was incomplete. Updating and enhancing the procedures manual, combined with enhanced supervisory oversight and review, would help ensure all necessary accounting entries are made timely to preserve the accuracy and reliability of accounting records.

After our inquiries, the Department processed accounting entries at the end of fiscal year 2015 to correct the accumulated errors. Adjustments included a \$4.4 billion reduction in cash accounts in the DMV Application and distribution spreadsheets. This adjustment represented funds that had been distributed, but proper accounting adjustments were not made in the system to correct the system's cash balance for multiple years.

Accounting Entries Were Not Always Adequately Supported

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 necessity and rationale 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.

Approving adjusting accounting entries without understanding the cause for the adjustment could result in systemic issues being overlooked. The two entries noted on page 10 were adjustments to correct cash balances in DMV records to agree with the state accounting system. One adjusting entry increased the DMV cash balance in the DMV Application by more than \$111.4 million. However, backup documentation did not explain the circumstances that resulted in the need for such an adjustment. The documentation simply showed a negative cash balance of \$89.4 million in the DMV Application and a positive cash balance of \$22.0 million in the state accounting system. Supporting documentation explaining the reason for the adjustment should have been required especially considering the significant negative cash balance in DMV records. Additionally, the supervisor who reviewed the entries could not readily explain why the adjustments were needed. Staff later explained the negative DMV Application balance was the result of a previous incorrect accounting adjustment, which resulted in the balance being significantly understated.

Accounting Entries Not Always Properly Recorded in Distribution Spreadsheets

We identified two significant accounting entries in fiscal year 2013 that were not properly recorded in the distribution spreadsheets. Supervisory review processes need to be enhanced to ensure such discrepancies are rectified timely. While these errors did not result in improper distributions or lost funds, accurate accounting records are necessary to provide reliable information to management and stakeholders.

The two significant accounting entries not properly recorded were as follows:

- The distribution spreadsheets indicated the Department had an undistributed cash balance of more than \$44 million at the end of fiscal year 2013. We found the imbalance originated from an accounting entry made at the end of fiscal year 2013 in the DMV Application. However, the entry was not recorded in the distribution spreadsheet and not identified as a closing entry in the documentation provided by the DMV. A notation in the DMV's records questioned the \$44 million variance but the discrepancy was not resolved and was carried forward in the distribution spreadsheets through fiscal year 2015.
- A \$66 million accounting entry in fiscal year 2013 was supported by the closing entry documentation and recorded in the DMV Application, but was not recorded in the distribution spreadsheet. While this error was corrected in the subsequent fiscal year records, supervisory review was not sufficient to recognize the significant entry was not recorded in the distribution spreadsheet at the time it was approved and processed.

In these instances, there was no indication actual funds were improperly distributed. Rather, the discrepancies were accounting errors. While we did not identify any instances of fraud or abuse, discrepancies in accounting records increase the risk of improper or fraudulent entries to obscure improper activities. When a distribution spreadsheet indicates funds have not been distributed that should have been, the Department should readily determine the nature of the variance and correct the discrepancy. Additionally, supervisory review processes should be enhanced to ensure all approved adjusting accounting entries are accurately recorded in the DMV Application and distribution spreadsheets.

Other Distribution Errors Identified by DMV Were Not Directly Related to Our Findings

On May 19, 2016, the DMV released a statement that a 3-year programming error resulted in overpayment of approximately \$19 million in Government Services Tax revenue to Nevada's local

governments and school districts. These errors are not directly related to the findings in this report. Our objectives and related testing did not include analysis of the inputs into the DMV Application or how transactions and fund allocations were coded within the system. Instead, our work focused on how the information coming out of the DMV Application was processed through its manually driven distribution process. However, the errors noted in this report, as well as those identified by the DMV, highlight the need for oversight of the distribution process to ensure amounts distributed are accurate and properly recorded.

Enhanced Monitoring of Distribution Process and Accounting Records Needed

The Department needs to improve internal controls over the accounting for distributions of funds to ensure distributions are recorded accurately and consistently in the state accounting system and DMV records (DMV Application and distribution spreadsheets). We identified various discrepancies in accounting records that should have been identified and corrected through routine supervisory review processes. These errors were not detected timely primarily because certain quarterly reconciliations between the DMV Application and state accounting system were not completed as required for fiscal years 2010 through 2015.

Discrepancies Existed Between DMV Records and State Accounting System

We identified various accounting discrepancies between DMV records and the state accounting system in 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. While DMV staff was able to identify the specific cause for most of the discrepancies we brought to their attention, some could not be readily determined due to the significant volume of distribution transactions. The errors identified did not result in funds being distributed to the wrong entities, but such errors resulted in differences in accounting records. Inaccurate accounting records could result in

management or other stakeholders relying on incorrect information when analyzing distributions.

The following are examples of significant discrepancies we identified:

- In fiscal year 2015, a distribution transaction totaling \$11.7 million was classified in the wrong DMV expenditure category in the state accounting system. The funds were coded to the proper recipient, but an error in the manual journal entry process resulted in the misclassification. A similar error occurred in fiscal year 2013 as a result of an error in processing a journal entry resulting in a \$1.1 million misclassification.
- In fiscal years 2012 and 2013, discrepancies of \$1.1 million and \$1.3 million, respectively, existed between DMV records and the state accounting system in certain accounts. However, the specific cause for the discrepancy was not readily identifiable due to the significant volume of distribution transactions through the relevant accounts. All such discrepancies should be identified and resolved timely.
- In fiscal year 2012, a \$311,000 distribution to a school district was miscoded in the DMV distribution records but was properly distributed through the state accounting system. A similar error in fiscal year 2010 resulted in the distribution spreadsheet showing distribution amounts to two institutions of higher learning as reversed. However, actual distributions were accurate through the state accounting system.

Although the process of reconciling DMV records to the state accounting system was detailed in a procedures manual, turnover at key staff and supervisory positions may have contributed to the oversight. Timely completion of these account-level reconciliations and improved supervisory review could have identified the discrepancies noted above and would have facilitated timely corrections. When the missing reconciliations

were brought to DMV management's attention, they indicated the quarterly reconciliation process was promptly reinitiated.

Controls Over Distribution Spreadsheets Need to Be Enhanced

Access to the distribution spreadsheets used to calculate the distribution of funds and prepare related accounting entries was not adequately safeguarded. Access to the distribution spreadsheets was limited to Administrative Services Division staff of about 50 employees. However, there are primarily two staff who need access to prepare and update the distribution spreadsheets. Limiting access to only those who need the ability to make changes to the distribution spreadsheet can reduce the risk of unwarranted modifications. Furthermore, supervisory oversight of the spreadsheets should be improved to detect improper edits from being made.

In our review of the distribution spreadsheets from 2010 through 2015, we identified some unusual balances that caused concern regarding access controls and supervisory oversight of the distribution spreadsheets. For example,

- In a fiscal year 2014 distribution spreadsheet, historical information for fiscal year 2011 included an account overstated by more than \$1 billion. Information in the original fiscal year 2011 spreadsheet was accurate.
- A new account was added to a distribution spreadsheet in fiscal year 2014, but incorrect historical information was entered indicating that more than \$2 million was distributed over an 8-year period that was not actually distributed.
- In fiscal year 2015, a \$408,000 balance appeared to have been improperly deleted from the distribution spreadsheet.

In these examples, there was no indication actual distributions were impacted but the need for improved security and oversight of the distribution spreadsheets was evident. Properly securing the spreadsheets is important as they are used to process the distribution of more than \$1 billion per year. Loss, destruction, or significant modification of the spreadsheet could disrupt the

distribution process which would impact various entities including state and local governments and school districts.

Recommendations

1. Update policies and procedures and desk procedure manuals to properly address the nonroutine year-end accounting entries to ensure required entries are properly made.
2. Enhance supervisory review procedures to ensure necessary nonroutine accounting entries are completed, properly supported, and consistently recorded in the DMV Application and distribution spreadsheets.
3. Improve supervisory review procedures to investigate unexpected accounting entries or imbalances that impact distribution spreadsheets and take timely corrective actions.
4. Enhance supervisory review procedures to ensure reconciliations between DMV records and the state accounting system are completed timely.
5. Limit access to distribution spreadsheets to staff needing access to complete their job duties.
6. Enhance supervisory review procedures to ensure only properly authorized changes are made to the distribution spreadsheets.

Enhancements Needed in Revenue Collection Processes

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.

Controls Over Deposits of Cash and Checks Were Sufficient

Internal controls over the deposits of receipted cash and checks were generally operating effectively. For the 350 randomly selected deposit dates from the 18 field office locations in fiscal year 2015, the cash and check amounts collected in supporting documentation agreed to amounts deposited and recorded in the state accounting system. The 350 selected deposits tested totaled \$27.6 million or 11.4% of the \$240.8 million in deposits of cash and checks in fiscal year 2015. Cash and checks accounted for about 19% of the \$1.27 billion collected in fiscal year 2015. Additionally, technicians' drawer discrepancies in the DMV Application were reasonably supported. Finally, in all cases where applicable documentation was available, funds were deposited timely, consistent with policy and statutory requirements.

Deposit Records in DMV Application Not Always Closed Timely

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. Changes to the system record could create imbalances in accounting records but would not impact the receipted funds, which are deposited in the bank independent of the system record being closed. 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 deposit records.

For the deposits selected from 18 DMV offices, we noted the following regarding timeliness of closing office deposit records:

- For the 7 largest offices based on volume of collections, 53 of 250 (21%) deposits were closed more than 7 days after the date the funds were received (the transaction date).
- For the 11 smaller offices, 41 of the 50 (82%) deposits were closed more than 7 days after the transaction date. Because fiscal staff in larger offices perform the DMV Application deposit verification and close process for smaller offices, some delay in paperwork transfer is anticipated. However, 8 of the 41 were closed 4 weeks or more after the transaction date.

Staff indicated the delays in closing the office deposit records were attributed to staff turnover or staff not clicking the appropriate button in the DMV Application. Additionally, some deposit discrepancies require time to obtain the necessary detailed reports to review the transaction details.

Staff had access to a report that identifies deposits that are not closed, but the report was not run timely and the frequency of use was not defined in policy. This report was primarily used at the end of the fiscal year to close outstanding deposits. By developing procedures for routine use of the open deposit report,

management and staff can help ensure offices' deposit records are closed timely.

Some Deposit Records Not Retained As Required

The DMV did not retain original deposit documentation for 50 of the 350 (14%) selected deposit dates as required by DMV policy. The 50 deposit records were prematurely destroyed in the Reno field office. Although staff was able to recreate key parts of the missing deposit records to facilitate our testing, 27 were deposits for emissions stations' transactions. For these, the recreated documentation did not provide enough information to determine the date funds were received or the timeliness of deposits.

DMV policies and procedures require the retention of such documentation for at least 3 years. DMV management indicated staff turnover resulted in a misunderstanding of the policy and premature disposal of the documentation. Improved supervisory oversight would help identify deviations from policies designed to protect the integrity of financial accounting records.

Enhancements to Other Revenue Controls Needed

Internal controls over reviewing fee overrides, timely deposit of funds, and sensitive payment information should be strengthened in certain program areas. Specifically, reports identifying fee overrides were not sufficiently monitored. Additionally, in certain instances, checks were held and not deposited timely in accordance with statutory requirements. Finally, sensitive payment information was not always properly secured. Such control weaknesses pose a risk of theft or loss of funds to the Department and customers. While corrective actions were taken when we brought these issues to management's attention, improved supervisory oversight processes over safeguarding sensitive payment information and timely deposits would be beneficial.

Additional Oversight of Fee Overrides Needed

The Department needs to establish a process to ensure fee overrides are subjected to a second supervisory review. The DMV Application allows technicians to perform a fee override when deemed necessary by a technician. An override occurs to correct the fee amount assessed by the DMV Application under

certain circumstances. A system control requires supervisory approval for any fee adjustment greater than \$7 before the transaction can be processed. System reports that summarize supervisor approved overrides are not being sufficiently utilized to monitor the nature and frequency of overrides. Establishment of a formal policy and defining the frequency of review and who is responsible for reviewing the override report would enhance the quality of controls over fee overrides. Review of these reports would help identify potential instances of collusion and identify recurring overrides that could indicate the need for training in certain offices or for certain staff.

Some Checks Not Deposited Timely

Checks received by mail by the Driver's License program area were held for 1 to 2 weeks before being deposited when customers' reinstatement requests were deficient. After following up with the customer and waiting for the missing documentation, if the necessary documentation was not obtained, the check was deposited and a refund was issued. Funds collected for reinstatements through this program area totaled about \$3.3 million in fiscal year 2015, and management indicated that only about 3% of submissions would be considered incomplete and would require follow up. When this practice was brought to their attention, management took immediate action to ensure funds were deposited timely. Timely deposit of funds is required by statute and DMV policies. Funds that are not deposited timely increase the risk of theft or loss. Management oversight could be improved to ensure processes are consistent with policy and statute.

Credit Card Authorization Documentation Not Secured

Credit card authorization forms were not always properly secured in two program areas in the Carson City office. Some payment authorization forms were unsecured on staff desks when not occupied. Others were stored in boxes pending destruction during the required retention period. In both scenarios, payment information in the documentation was not adequately secured. These forms were only accessible by DMV employees, but such information should be secured to prevent theft. DMV funds handling policies require all funds to be secured when leaving a

workstation. When brought to management's attention, actions were promptly taken to properly secure the sensitive customer payment information. Enhancing management oversight to ensure internal policies are complied with would help ensure funds are properly safeguarded.

Recommendations

7. Develop policies and procedures to ensure system reports are utilized frequently to help ensure the timely close of deposit records in the DMV Application.
8. Improve management oversight processes to ensure deposit records are maintained for the period required by the Department's records retention policy.
9. Develop policies and procedures to ensure fee override reports are routinely reviewed to identify performance improvement opportunities and potential improper fee overrides.
10. Enhance management oversight processes over safeguarding sensitive payment information and timely deposit of funds to ensure staff comply with existing policies and procedures and related statutory requirements.

Appendix A

Audit Methodology

To gain an understanding of the Department of Motor Vehicles (DMV), we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to the Department's activities. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, revenue distribution spreadsheets, and DMV accounting records. Furthermore, we documented and reviewed the Department's internal controls and administrative procedures related to depositing received funds, distribution of funds, and maintenance of accounting records.

To determine whether controls over the revenue distribution processes and accounting record balances were adequate, we first reviewed the Department's policies and procedures and desk manuals for processing revenue distributions and compared these with actual practices. We also reviewed state laws dictating the distribution requirements for DMV revenues and documented the internal controls over ensuring the accuracy of the information contained in the Excel-based distribution spreadsheets.

Next, we compared the annual amount of revenues from fiscal years 2010 through 2015 recorded in the DMV Application, the state accounting system, and the distribution spreadsheets. We then performed a trend analysis of distributions by account category and object code for fiscal years 2010 through 2015 between the DMV Application and the state accounting system records to identify unusual fluctuations and discrepancies. For unusual fluctuations or discrepancies between DMV and state records, we inquired of DMV staff for explanations and related supporting documentation.

To determine whether distributions were properly calculated, we randomly selected two distribution periods during fiscal year 2015.

We then re-performed the distribution calculations by obtaining disbursement detail reports generated from the DMV Application for the selected periods and verified all amounts were properly input into the distribution spreadsheets. We then identified the distributions that should have been made in the selected periods. We recreated Excel pivot tables to verify the information in the distribution spreadsheets was properly and accurately captured in the journal entry forms in the distribution spreadsheet. We also reviewed journal and payment voucher entries to verify amounts processed were accurate, verified proper approval was obtained for these entries, and compared amounts and pertinent account coding information in the journal entries with the amounts recorded in the state accounting system. Last, we reviewed applicable desk manuals and related policies and procedures and discussed our results with DMV staff.

To determine the sufficiency of controls over the nonroutine journal entries and account balances in the DMV Application at year-end, we first reviewed the Department's desk manual and related policies and procedures over the fiscal year-end closing process. To understand the cause of the overstated cash account balances in DMV accounting records, we reviewed the history of closing entries from fiscal years 2010 through 2015. We also reviewed the control procedures over updating the distribution spreadsheet and access controls to ensure the integrity of the information contained therein.

To determine the cause for the imbalance in the distribution spreadsheets in fiscal year 2013, we performed an analysis of closing entries from 2010 through 2015. We also performed analytical comparisons of related accounts during the scope of the audit to identify the specific entry that resulted in the imbalance. We also reviewed the year-end closing entries for fiscal years 2010 through 2015 for reasonableness. For all entries made in fiscal year 2015, we reviewed the nature of the entry and supporting documentation for adequacy.

To evaluate the adequacy of internal controls over the process for depositing receipts, we stratified the 18 field offices into large and small offices based on the volume of check and cash deposits. We

then selected a random sample of 250 dates from the 7 largest DMV offices during fiscal year 2015, 50 dates from the remaining 11 small DMV offices, and 50 dates for the emissions station deposits. For each selected date, we requested the deposit documentation. In those cases that original documentation was not available, we requested recreated documentation from available files and system reports to facilitate our testing. For each selection, we reviewed the pertinent deposit packet including the branch daily deposit report, deposit slips, system screen shots of technician's drawer and system totals, and documentation for technicians' drawer discrepancies. We reviewed noted discrepancies for reasonableness and sufficiency of supporting documentation. We also analyzed the frequency of discrepancies among technicians and identified the reason for discrepancies.

To verify receipted funds (cash and checks) were properly deposited, we agreed deposit amounts in the deposit record to the amount recorded in the state accounting system. We then calculated the days to deposit to ensure deposits were made timely in accordance with NRS 353.250. We also calculated the amount of time DMV staff took to close the deposit record in the DMV Application for each selection. Based on the results of the testing, we assessed whether there was evidence of deposit information being improperly altered after initially prepared by comparing the system reports and deposit records with the amounts deposited.

To assess whether proper controls were in place over overrides of transaction fees, we reviewed the control process with staff from various divisions within the Department. We also discussed questions with DMV staff regarding access controls to the deposit records. Finally, we reviewed control processes over non-field service funds handling processes to identify areas for potential improvement.

For our testing involving samples, we used non-statistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgement, review of authoritative sampling guidance, and careful consideration of the underlying statistical concepts, we

believe that non-statistical sampling provided sufficient appropriate evidence to support our conclusions in our report. We have not projected the errors noted in our samples to the population primarily because our randomly selected tests did not identify significant errors. Additionally, other judgmentally selected items were based on our identification of errors in records when reviewing the population. Significant findings were generally control issues based on analytical testing using the entire population during our scope. Since a portion of our samples were based on these factors, we do not think a projection of errors would be appropriate.

Our audit work was conducted from February 2015 to May 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Director of the Department of Motor Vehicles. On August 31, 2016, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 26.

Contributors to this report included:

Paul E. Casey, MBA	Daniel L. Crossman, CPA
Deputy Legislative Auditor	Audit Supervisor

Appendix B

Response From Department of Motor Vehicles

Brian Sandoval
Governor



Terri L. Albertson
Director

555 Wright Way
Carson City, Nevada 89711
Telephone 775-684-4368

September 12, 2016

Rocky Cooper, CPA, Legislative Auditor
State of Nevada Legislative Counsel Bureau
Legislative Building
401 S. Carson Street
Carson City, Nevada 89701-4747

Dear Mr. Cooper,

Please accept this letter as the Nevada Department of Motor Vehicles (DMV) official response to the 2016 Performance Audit and corresponding Audit Recommendations. The Department has reviewed, analyzed, and accepts all ten (10) of the recommendations made by the Legislative Counsel Bureaus Auditors to improve controls over revenue distributions, accounting records, and the revenue collections process. Following you will find a response to each recommendation.

Recommendation 1: Update policies and procedures and desk procedure manuals to properly address the non-routine year-end accounting entries to ensure required entries are properly made.

- DMV's Administrative Services Division is in the process of developing policy and procedures and updating desk procedure manuals on non-routine year-end accounting entries.

Recommendation 2: Enhance supervisory review procedures to ensure necessary non-routine accounting entries are completed, properly supported, and consistently recorded in the DMV Application and distribution spreadsheets.

- The Department is in the process of developing policy and procedures for accounting entries which will include supporting documentation requirements and approval processes.

Recommendation 3: Improve supervisory review procedures to investigate unexpected accounting entries or imbalances that impact distribution spreadsheets and take timely corrective actions.

- Desk Procedures for the Department's ASO III (PCN 0027) will be updated to specify unexpected accounting entries must be fully researched in a timely manner and that supporting documentation shall be provided.
- In an effort to improve oversight, a threshold requirement will be implemented requiring additional approval from the DMV Chief of Administration (PCN 0001) for unexpected accounting entries.

Recommendation 4: Enhance supervisory review procedures to ensure reconciliations between DMV records and the state accounting system are completed timely.

- Desk Procedures for the Department's ASO III (PCN 0027) are in the process of being modified to include review and approval of revenue reconciliations to the state accounting system.

Recommendation 5: Limit access to distribution spreadsheets to staff needing access to complete their job duties.

- DMV created a secure file for the distribution spreadsheets with restricted access and permissions in January 2016. Only DMV staff required to complete distribution tasks can edit distribution spreadsheets.

Recommendation 6: Enhance supervisory review procedures to ensure only properly authorized changes are made to the distribution spreadsheets.

- DMV enabled restricted permissions to the distribution spreadsheets, resulting in limited access to edit distribution spreadsheets to only authorized staff in January 2016. Authorized staff will be trained and held accountable for any modifications to the distribution spreadsheet. All changes to the distribution spreadsheet require acknowledgement from the ASO III (PCN 0027). An authorization form must be submitted with management approval to the DMV IT Helpdesk to allow new access to edit the distribution spreadsheets.

Recommendation 7: Develop policies and procedures to ensure system reports are utilized frequently to help ensure the timely close of deposit records in the DMV Application.

- DMV's Administrative Services Division is in the process of developing policy and procedures to address this recommendation.

Recommendation 8: Improve management oversight processes to ensure deposit records are maintained for the period required by the Department's records retention policy.

- Staff will be trained on the proper record retention schedules and management authorization will be required prior to destruction of any deposit records.

Recommendation 9: Develop policies and procedures to ensure fee override reports are routinely reviewed to identify performance improvement opportunities and potential improper fee overrides.

- A service request has been submitted to develop and draft DMV policies and procedures to address fee override reports.

Recommendation 10: Enhance management oversight processes over safeguarding sensitive payment information and timely deposit of funds to ensure staff comply with existing policies and procedures and related statutory requirements.

- Management has provided a reminder to staff on proper Funds Handling requirements and will continue to provide opportunities for refresher Fund's Handling Training to staff.

Please let us know if you have any additional questions or concerns.

Sincerely,



Terri Albertson, Director

Department of Motor Vehicles' Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Update policies and procedures and desk procedure manuals to properly address the nonroutine year-end accounting entries to ensure required entries are properly made.	<u> X </u>	<u> </u>
2. Enhance supervisory review procedures to ensure necessary nonroutine accounting entries are completed, properly supported, and consistently recorded in the DMV Application and distribution spreadsheets.....	<u> X </u>	<u> </u>
3. Improve supervisory review procedures to investigate unexpected accounting entries or imbalances that impact distribution spreadsheets and take timely corrective actions.....	<u> X </u>	<u> </u>
4. Enhance supervisory review procedures to ensure reconciliations between DMV records and the state accounting system are completed timely.	<u> X </u>	<u> </u>
5. Limit access to distribution spreadsheets to staff needing access to complete their job duties.....	<u> X </u>	<u> </u>
6. Enhance supervisory review procedures to ensure only properly authorized changes are made to the distribution spreadsheets.....	<u> X </u>	<u> </u>
7. Develop policies and procedures to ensure system reports are utilized frequently to help ensure the timely close of deposit records in the DMV Application.	<u> X </u>	<u> </u>
8. Improve management oversight processes to ensure deposit records are maintained for the period required by the Department's records retention policy.	<u> X </u>	<u> </u>
9. Develop policies and procedures to ensure fee override reports are routinely reviewed to identify performance improvement opportunities and potential improper fee overrides..	<u> X </u>	<u> </u>
10. Enhance management oversight processes over safeguarding sensitive payment information and timely deposit of funds to ensure staff comply with existing policies and procedures and related statutory requirements.....	<u> X </u>	<u> </u>
TOTALS	<u> 10 </u>	<u> </u>