New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of Transportation
Division of Motor Vehicles
Selected Programs

July 1, 1997 to December 21, 1998

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State Auditor
The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Transportation, Division of Motor Vehicles, Selected Programs for the period July 1, 1997 to December 21, 1998.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
February 4, 1999
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Scope

We have completed an audit of selected programs of the Department of Transportation, Division of Motor Vehicles (DMV) for the period July 1, 1997 to December 21, 1998.

The prime responsibility of the division is the registration and regulation of all motor vehicles and the licensing of drivers within the state. DMV collects anticipated revenue from various fees and taxes which provide resources in support of the general operations of state government. Our scope was limited to revenue collected at DMV, payments to motor vehicle agents, the division’s procedures for monitoring motor vehicle agencies, and controls over the posting of maintenance transactions to the division’s Comprehensive System database. Annual expenditures and revenue for the selected programs in our scope were $19 million and $96 million, respectively.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency’s programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget mes-
sage, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

**Conclusions**

We found that financial transactions were related to the agency’s programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses relating to the monitoring of transactions posted to the division’s Comprehensive System, motor vehicle agency expenditures, and the collection and depositing of revenue. We also found that the division had resolved the significant issues noted in our prior report.
Monitoring of System Transactions

The Division of Motor Vehicles maintains driver history information on a Comprehensive System database. Access to the Comprehensive System is secured with a software program which allows the division to define access. Each employee is granted a user id by the Information and System Management unit, which gives various levels of inquiry and maintenance options. Maintenance level AMM4 screen option DH (AMM4 DH) allows division employees to post violations and reversals of violations to driver history records. Violations such as excessive points, regulatory, driving while intoxicated, and refusal of alcohol and drug testing result in the assessment of an insurance surcharge against the driver. Reversals of violations are posted to the system as inactivations (permanent removal of an event) or pending appeal (temporary postponement for an indefinite period of time). When posted to the system, these transactions automatically remove the driver’s insurance surcharge liability.

Adequate internal controls over maintenance transactions such as inactivations and pending appeals posted to the Comprehensive System are vital to the protection and integrity of driver history records and the collection of the insurance surcharge. The Division of Motor Vehicles has not developed adequate procedures to monitor these sensitive transactions posted to the Comprehensive System. In addition, it has not approved a draft policy establishing management’s responsibility for such monitoring.

We identified 12 units in the division that have access to driver history maintenance capabilities through AMM4 DH and evaluated their procedures for monitoring sensitive transactions. Most unit supervisors have not been provided with system generated reports that summarize daily activity. These reports, which provide a means to effectively monitor transactions, were provided only to the Data Entry unit and the Regional Service Centers.
The Data Entry unit receives a system generated report that captures all of the units’ daily transactions. This report is reviewed by the unit supervisor and a sample of transactions is verified to supporting documentation. The Regional Service Centers (RSC) send the daily activity report with all daily transactions and supporting documentation to the RSC Technical Support unit. The RSC Technical Support unit reviews a sample of transactions from the report and verifies them to the supporting documentation. However, due to a lack of manpower, the Technical Support unit only reviews transactions that result in the collection of fees. Non-fee transactions such as inactivations and pending appeals are not reviewed.

The lack of monitoring by the division over the posting of inactivations and pending appeals increases the risk that inappropriate transactions could occur and not be detected. Failure by the division to identify inappropriate transactions could also result in driver’s surcharge liabilities being removed prior to collection.

**Recommendation**

We recommend that the division distribute system generated reports that capture maintenance transactions to unit supervisors for monitoring. We also recommend that the division approve the draft policy that requires supervisors and managers to be responsible for transactions posted by their units.

**Auditee’s Response**

We agree that additional monitoring is necessary. A component of our new Enhanced Driver History system will enable managers to review on-line maintenance transactions processed by their employees. This tracking system will provide other audit reports as well. We anticipate the roll-out of this tracking system within the current year. As an interim measure, MVS is now distributing the reports to the Regional Service Center Technical Support Unit for review until the on-line tracking system is available to all managers.

Additionally, as a result of a recent internal audit, MVS has undertaken a complete review of all systems access capabilities. Managers were required to submit new justifications according to new stringent guidelines in order for their employees to be granted any access to the
motor vehicle data bases. Those justifications that did not meet the guidelines were not approved. This initiative reduced the number of employees who had file maintenance capabilities, thereby providing a secondary control against unauthorized transactions.

We also agree with the need to formalize the policy placing the responsibility on managers and supervisors to be responsible for transactions posted by their employees and will complete the policy by the end of March 1999.

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**Timeliness of Deposits**

Department of the Treasury Circular Letter 94-24-OMB states that agencies are to ensure that all moneys are deposited on the same day as received. We found three units within the division (International Fuel Tax Agreement or IFTA, Special Titles, and Commercial Bus Inspection) which did not deposit their receipts in a timely manner. These programs collected a total of $11.5 million in fiscal year 1998. Twenty-one of twenty-six cash receipts tested were deposited from 3 to 36 days late, because checks remain with submitted documents throughout their processing, which involves numerous steps. In addition, checks in the IFTA and Special Titles units were not restrictively endorsed when received and were not kept in a secure location prior to deposit. These untimely deposits and lack of controls increase the risk of lost funds.

**Recommendation**

We recommend that checks be separated from documents, restrictively endorsed, and deposited upon receipt.

**Auditee’s Response**

In both the Commercial Bus Inspection Unit and the International Fuel Tax Agreement (IFTA) Unit, the audit recommendation has been implemented. The work process within the Special Titles Unit will require additional analysis to develop ways to fully implement the recommendation. The department’s internal audit staff will work with management in that area to resolve
the timing delay. Resolution of the finding for the Special Titles Unit is expected by May 1999.

Annual Report Fees

Prior period annual report fees should be collected.

The Division of Motor Vehicles has not billed any commercial bus companies for annual report fees for calendar years 1995 and 1996. The requirement for the filing of an annual report for all commercial bus companies operating in the state and the fee schedules for filing and for examination and audit of these reports are established by statute (N.J.S.A. 48:2-16; 48:2-56). These fees were not billed because of problems arising from the reorganization of the Department of Transportation. The Office of Regulatory Affairs, which was responsible for the billing and collection of the annual report fees, was transferred to DMV in 1996. However, the transfer did not include the office’s accountant nor the computer database of annual report filings. A new accountant was not hired for this program until June 1998. The division director decided not to collect any report fees prior to calendar year 1997. As a result, annual report fees estimated at $150,000 to $200,000 have not been collected by the division.

Recommendation

We recommend that the division calculate and bill annual report fees for commercial bus companies for calendar years 1995 and 1996.

Auditee’s Response

Motor Vehicle Services has begun the effort to gather the data necessary to bill commercial bus companies for annual report fees for calendar years 1995 and 1996. It is anticipated the effort will take several months. As soon as the data is compiled, the commercial bus companies will be billed. Every effort will be made to prepare and send bills for all fees due.
Motor Vehicle Agency Expenditures

The division monitors the operations of the motor vehicle agencies through revenue reconciliations, procedures audits and field visits. In order to enhance their monitoring of the operations of the motor vehicle agencies, the management of the Division of Motor Vehicles should have knowledge of the agencies’ expenditures. However, no individual or unit within DMV summarizes the total expenditures incurred by and on behalf of the 45 motor vehicle agencies. Procedures have not been implemented to track and accumulate these costs by agency. This task is complicated by the fact that there are various components to the agencies’ expenditures, including: 1) direct payments to the agents by DMV, which total approximately $16 million; 2) rent and maintenance costs paid by DOT’s Division of Support Services; and 3) systems maintenance costs paid to the Office of Information Technology by DOT’s Division of Budget and Management Support. As a result, DMV management does not know the total expenditures of the motor vehicle agencies and thus does not have sufficient information to evaluate the performance of the agencies.

Recommendation

We recommend that the division develop procedures to accumulate all costs associated with the motor vehicle agencies and prepare regular reports which summarize and compare these expenditures.

Auditee’s Response

Within MVS’s Customer Services area is a new Contract Compliance Unit, which will immediately take on the responsibility of accumulating and reporting on the expenditures of the motor vehicle agencies. A quarterly report will be produced to show both direct and indirect payments to the agencies. A summary of the expenditures will allow for agency comparisons and will be a useful management tool.