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

Motor Vehicle Commission
Central Office

July 1, 2003 to October 31, 2005

Richard L. Fair
State Auditor
The Honorable Jon Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Motor Vehicle Commission, Central Office for the period of July 1, 2003 to October 31, 2005. If you would like a personal briefing, please call me at (609) 292-3700.

[Signature]
Richard L. Fair  
State Auditor  
March 13, 2006
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Motor Vehicle Commission
Central Office

Scope

We have completed an audit of the Motor Vehicle Commission Central Office for the period July 1, 2003 to October 31, 2005. Our audit included financial activities accounted for in the state's General Fund, the Division of Motor Vehicles Surcharge Fund, the Motor Vehicle Commission Fund, and the Alcohol Education, Rehabilitation and Enforcement Fund.

The Motor Vehicle Commission (commission) was created by the Motor Vehicle Security and Customer Service Act in 2003 and replaced the Division of Motor Vehicles. The commission is in, but not of, the Department of Transportation. The prime responsibility of the commission is the registration and regulation of all motor vehicles and the licensing of drivers within the state. Our scope was limited to the operations of the commission's central office. Total expenditures including central office activities were $256 million and $278 million in fiscal years 2004 and 2005, respectively. Annual revenues collected by the central office were $165 million. The major components of revenue were motor vehicle fees, sales of motor vehicle data, and surcharges.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the commission's programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of the significant conditions noted in our prior report dated February 4, 1999.

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 commission. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed commission personnel to obtain an understanding of the programs and the 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. Sample populations were sorted and transactions were judgmentally selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the commission and performed tests on the system to determine if the corrective action was effective.

Conclusions

We found that the financial transactions included in our testing were related to the commission’s programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention. We also found that the commission has resolved one of the two significant issues noted in our prior report. The remaining issue involving untimely deposits of revenue has been restated in this report.
Financial Transaction Processing and Approvals

Department of the Treasury regulations have established controls over the on-line approval of financial transactions on the New Jersey Comprehensive Financial System (NJCFS). Circular Letter 95-11-OMB, Internal Accounting Controls, states that one person should not have three levels of approval over NJCFS transactions. When exemptions to this policy are granted, certain conditions must be followed: 1) any person who is granted the exemption to apply three levels of approval to a transaction cannot enter or change that transaction; and 2) transactions approved by individuals with three levels of approval must be supported by a paper document with at least one authorized signature other than the person with three levels of approval. In 1995, Treasury granted an exemption to the policy to the New Jersey Department of Transportation (DOT) that was contingent on the adoption of compensating controls. The Motor Vehicle Commission (MVC) has also been granted this exemption because it is in, but not of, the DOT and uses the same accounting systems. There are seven MVC employees to whom DOT has granted the capability to process transactions in their entirety.

Our review of system controls in place at the MVC revealed insufficient segregation of duties regarding the processing of financial transactions and noncompliance with the terms of the policy exemption. We found that transactions were not properly processed in 29 of 66 sample cases. These exceptions included transaction entry and payment approvals applied by one person, and system approval provided by the same person who authorized the transaction on the supporting paper document. DOT personnel do not monitor the commission’s on-line transactions to ensure compliance with the terms of the policy exemption.
We performed additional tests of MVC’s financial transactions and discovered more control weaknesses. Our analysis of the 1200 transactions from the NJCFS approval log for the period January 1, 2004 to June 30, 2005 revealed 56 transactions had been processed with employee logon ids on days the individuals were not working. We also found that 163 of the approval log transactions had been entered into NJCFS and completely approved in less than one minute by at least two individuals. In addition, there were four individuals who continued to have active access to the state accounting system after they were no longer employed by or were on extended leave from the MVC.

Although all of the above control weaknesses increase the risk of unauthorized transactions occurring, we did not discover any improper payments during our testing period.

**Recommendations**

We recommend that MVC’s system access be reviewed and restricted by the Department of the Treasury. System transactions should be monitored by Treasury personnel to ensure that MVC is complying with the terms of the exemption stated in 95-11-OMB. In addition, logon ids should not be shared, and terminated employees should be removed from the systems in a timely manner.

**Revenue**

Types of revenue collected by the Motor Vehicle Commission include licenses, registrations, titles, program fees, fines, surcharges, and taxes relating to the operation of motor vehicles and affiliated businesses. There are 30 units throughout the central office which collect and record revenue. The Financial Management section is responsible for the collection of all the units’ deposits, the preparation of the daily deposit package for the
The commission should deposit all revenue within one day of receipt.

armored car service, and the recording of all revenue collected within the central office. State Treasury Circular Letter 94-24-OMB, Deposits by State Agencies, states that revenue should be deposited on the same day as received. Total revenue collected by the central office was $167 million in fiscal year 2004 and $165 million in fiscal year 2005.

We tested the commission’s revenue collection procedures by sampling deposits from eight of the central office units which receive revenue. Our tests revealed untimely deposits, improper document preparation, posting errors, and inadequate cash reconciliation procedures.

Untimely Deposits

We tested 48 deposits totaling $8,013,000 and found that 29 were deposited from 2 to 30 days after they had been received. These late deposits occurred in seven of the eight units tested and totaled $4,694,000. We also found that two of the sample units did not restrictively endorse checks upon receipt nor did they keep the checks in a secure location prior to deposit. The delays in depositing and lack of endorsements in two units were due to the fact that checks are kept with the submitted documents while the processing cycle is completed. In addition, two of the units did not prepare daily deposits and three units that prepared daily deposit packages neglected to deliver them on a daily basis to the Financial Management section. The presence of undeposited cash and checks in so many locations increases the possibility of lost or misappropriated funds.
The commission should ensure that accurate revenue documents and records are prepared.

Central office units should improve their reconciliation procedures.

Document Preparation

Our tests of 48 sample deposits revealed numerous errors in document preparation and posting to financial records. The deposit slips and Cash Receipt (CR) documents were prepared incorrectly in six instances each. The amount of these deposits was posted incorrectly to Financial Management’s records five times and to the Department of the Treasury, Division of Revenue’s cash cards three times. We also noted additional posting errors to the bureau’s internal records, resulting in an understatement of fiscal year 2004 revenue by $1,158,412 and an overstatement of fiscal year 2005 revenue by $394,606.

The errors in deposit slip and CR document preparation resulted from carelessness on the part of commission personnel and most of the posting errors occurred because the initial document preparation errors were not detected. Although the correct amounts were ultimately posted to the bank and to the state’s financial system, the preparation of inaccurate revenue documents increases the likelihood that there will be errors in these records. The commission’s central record of revenue collections that is maintained by Financial Management was not accurate.

Cash Reconciliations

Three of the central office units sampled issue licenses, registrations, and titles, as do the 45 motor vehicle agencies located throughout the state. These transactions are recorded on various computer systems which provide daily summaries of all transactions. At the end of the day, unit personnel compare daily collections to these summaries, which indicate what should have been collected if all transactions were posted accurately to the system and proper collections were received. If the differences between actual collections and system totals exceed a preestablished amount, reconciliations should be
performed and documented by the units. We found that the reconciliation procedures of all three units were unsatisfactory. These units did not prepare the required documentation or adequately explain the differences for 12 of the 15 sample items where daily collections did not agree with the business totals from the system reports. Proper reconciliations were not performed because of inadequate oversight by unit supervisors. Such reconciliations should identify the reasons for differences, which could be theft, failure to collect payment, incorrect recording, or errors in the preparation of deposits. When reconciliations are not performed, commission management cannot take the appropriate steps to rectify the problems.

**Recommendations**

We recommend that:

- The commission determine whether checks can be removed from the submitted documents at the initial point of receipt and prepared for deposit on the day of receipt.

- The Financial Management section ensure that the revenue-collecting units submit deposits on a daily basis.

- Greater care be taken by MVC personnel when preparing and recording deposits.

- Unit supervisors ensure that proper reconciliations are performed when necessary.
Employee Agreements

There are several individuals who work full-time for the Motor Vehicle Commission but are not MVC employees. This includes the Division of Criminal Justice Investigation Unit and the Division of State Police Document Fraud Unit. The responsibilities and reimbursement procedures for each arrangement should be set forth in a Memorandum of Understanding (MOU).

We found that there has never been an approved MOU between the Motor Vehicle Commission and the Division of Criminal Justice for their Investigations Unit, which has been in existence since October 2003. In addition, there is no MOU with the Division of State Police for their Document Fraud Unit for the period March 1, 2005 to February 28, 2006. Because the agencies involved have not been able to agree on all the terms of the MOUs, it is not possible for commission personnel to monitor the operations of these units regarding their responsibilities, the number of personnel assigned, and the costs that should be reimbursed.

We also found that total reimbursements to the Division of State Police for the Document Fraud Unit for the period March 1, 2004 to February 28, 2005 exceeded the $1,005,000 reimbursement cap established by the MOU by $38,755. The unit's costs are supposed to be reported for the quarters ending March 31, June 30, September 30, and December 31. This lack of coordination between cost reporting and agreement periods has made it difficult for commission personnel to track costs and to avoid exceeding the reimbursement cap.

Recommendations

We recommend that:

- Participating state agencies agree to the terms of MOUs before the effective date
of the agreements;

- The periods established for reporting costs be coordinated with the period of the MOU; and

- Reimbursement caps established by MOUs be more closely monitored by MVC financial personnel in the future.

Vehicle Inspection Database

Parsons Infrastructure operates the state’s 31 centralized motor vehicle inspection facilities. The state currently pays Parson $27.16 per inspection. Parsons submits monthly invoices detailing the number of vehicles inspected to MVC’s Enhanced Inspections unit, where the invoices are reviewed and approved for payment.

All inspections are supposed to be recorded by Parsons personnel on a Vehicle Inspection Database (VID), which is accessible to the Motor Vehicle Commission. Inspections are also recorded on vehicle inspection reports, which are generated from inspection lane analyzers.

We discovered that some vehicle inspections have not been recorded on the VID. According to MVC personnel, the cause of these non-postings has not been determined but they occur about 250 times a year. Parsons is reimbursed for the unrecorded inspections as long as they explain the discrepancy to MVC and maintain a copy of the vehicle inspection report at the facility. However, neither Parsons nor MVC has taken action to subsequently record these inspections on the database. As a result, it is possible that a driver whose vehicle has passed inspection could be informed that there was no record of such an inspection on the official database. Although the record of the inspection
is available at the inspection facility, the driver would suffer the burden of proving that the inspection had occurred.

**Recommendations**

We recommend that the commission require Parsons to post unrecorded inspections to the Vehicle Inspection Database as soon as they are discovered or to send copies of the inspection reports to the MVC central office.

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**Fixed Assets**

Circular Letter 91-32-0MB requires state agencies to establish and maintain an equipment inventory record. Such a record should include the asset description, acquisition date, cost, source of funds, location, and inventory tag number for all equipment with a cost of $1000 or more. A fixed asset inventory system is necessary to establish responsibility and accountability for individual assets, safeguard them from loss or theft, obtain optimum insurance coverage, support insurance claims, identify surplus items, and track items purchased with federal funds.

The Motor Vehicle Commission warehouse is responsible for maintaining a record of all fixed assets owned by the commission. We found that their records do not account for all of the commission's fixed assets and that inventory records are also maintained by MVC's Security and Investigations unit and Information Technology unit, and by the Department of Transportation IT Help Desk for specific types of equipment. In addition, the warehouse inventory records do not include all required information. There was no cost column and no information was entered in the date column in 2653 cases out of 7172 entries.

Our review of MVC's equipment purchases during fiscal year 2005 indicated that the

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commission’s fixed asset records are not complete. Our sample of equipment purchases consisted of 1229 items, including computers, servers, and printers, that cost at least $1000. We could not locate 385 of these items, which had a dollar value of $1.1 million, on any of the commission’s inventory records and, therefore, we could not physically locate any of these items.

**Recommendations**

We recommend the commission include all equipment and all required information on one central fixed asset record. In addition, every effort should be made to locate and record the equipment which was not posted to their records.

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**Confidential Fund**

The Motor Vehicle Commission operates the NJ Vehicle Inspection Independent Monitoring Confidential Fund. Circular Letter 05-06-OMB, Guidelines for the Establishment and Operation of Special and Confidential Funds, requires that the administering agency perform periodic audits. The frequency of the audits is determined by the amount of fund disbursements during the last period audited. This fund was last audited for the year ended June 30, 2000, when annual disbursements were $1,100. According to the schedule in the circular letter, an audit of the fund should have been performed by MVC for fiscal year 2004 and submitted to OMB by December 27, 2004. Disbursements have increased substantially since the last audit; fund disbursements were $108,000 in fiscal year 2004 and $113,000 in fiscal year 2005.

**Recommendations**

We recommend that the commission perform an audit of the confidential fund for fiscal year 2005 and submit it to OMB as soon as possible.
The human resource unit should obtain medical documentation.

**Medical Documentation**

The Motor Vehicle Commission requires that proof of illness be submitted by employees who have used sick leave for more than 15 days in one calendar year. This documentation should be submitted to the commission’s human resources unit and maintained in confidential medical files. There were 668 commission employees who used more than 15 days of sick leave during 2004. We found that there was no medical documentation in the human resource unit’s files for 14 of 25 employees tested. The lack of enforcement of this policy by the commission’s human resources unit makes it difficult to determine whether employees are abusing sick leave.

**Recommendations**

We recommend that the human resources unit enforce the requirement regarding sick leave documentation.
March 6, 2006

Mr. Richard L. Fair
State Auditor
Office of the State Auditor
P.O. Box 067
Trenton, New Jersey 08625-0067

Re: OLS Audit-Motor Vehicle Commission Central Office

Dear Mr. Fair:

In connection with the Office of Legislative Services audit of the Motor Vehicle Commission ("MVC") Central Office as of October 31, 2005 for the period of July 1, 2003 to October 31, 2005, the Commission appreciates the efforts of your staff in the thorough audit performed of the Motor Vehicle Commission-Central Office and for the courteous and professional manner in which your staff worked with the Commission. The Commission response to your findings is as follows:

**OLS Recommendations:**
**Financial Transaction Processing and Approvals**
**Recommendation:**
"We recommend that MVC’s system access be reviewed and restricted by Treasury. System transactions should be monitored by Treasury personnel to ensure that MVC is complying with the terms of the exemption stated in 95-11-OMB. In addition, logon ids should not be shared, and terminated employees should be removed from the systems in a timely manner."

**MVC Response:**
Because the system access is currently monitored by the Department of Transportation (DOT), MVC was made aware that system access had not been appropriately restricted. The system access issues raised have either been addressed or will be addressed as the system access will be handled by the Department of Treasury in the future. Security issues cited regarding internal controls are being addressed. At the time of termination, authorization for employees will be promptly rescinded. Efforts are ongoing to work with the DOT to align levels of authority with the Circular 95-11; however, it is the opinion of MVC that our needs are not sufficiently served through the use of DOT’s Financial Management Information System (FMIS/MACS-E). As an autonomous agency utilizing only NJCFS would lessen the likelihood of problems with segregation of duties regarding the processing of financial transactions. Currently, authorization levels are being reviewed and changed but the ultimate answer is viewed as moving away from FMIS/MACS-E as it is utilized withDOT.
OLS Recommendations:

Revenue
Recommendation:
"We recommend that:

- The Commission determine whether checks can be removed from the submitted documents at the initial point of receipt and prepared for deposit on the day of receipt.
- The Financial Management section ensure that the revenue collection units submit deposits on a daily basis.
- Greater care be taken by MVC personnel when preparing and recording deposits.
- Unit supervisors ensure that proper reconciliations are performed when necessary."

MVC Response:
Currently, MVC is in the late stages of implementing an Oracle Revenue General Ledger Module. It is anticipated that with this new system, improvement in revenue reporting, policy and procedures will be reviewed and changes will be implemented to address weaknesses such as those found in the audit report.

A review of samples for IFTA accounts revealed a propensity toward examination of end of tax quarter returns. Volume is at its greatest intensity at the close of each quarter. In addition, IFTA bylaws require the postmark date be recorded as the date of receipt to insure that participants who are in arrears receive a fair penalty assessment, and those who are timely are protected against penalty assessment. This federally mandated requirement alters the real-time receipt date. For example, a tax return postmarked April 30th is received in the unit on May 7th. This return is backdated to record receipt date as April 30th. The check and its accompanying tax return are stamped with a FTN (Form Tracking Number). The FTN tracks the return through the completion process. The deposit date is reconciled against the completion date of May 7th, deposit date of May 8th, and a receipt date of April 30th, thus being interpreted as an eight-day deposit delay when, in fact, the actual receipt date was May 7th with a deposit date of May 8th. Transactions completed on Friday are not deposited until the following Monday. This current audit acknowledges a five-day grace period for deposits as acceptable. In addition, there are factors beyond the control of unit processing, i.e., postal delivery, in-house mail distribution and staffing levels. Samples of noted exceptions are being investigated. The results will determine a business process review to identify and target areas requiring improvement and improved methods will be instituted. In addition, approximately 2,400 fees monthly are processed manually in Driver Management; and since the time of the audit, processing time has been decreased by 78%. The major change made is that all fees, with the exception of the UMS Unit, will be processed by Driver Management's Fee Unit to centralize entry for more control and security. A sampling of checks received was monitored through all steps of the process and confirms that a deposit is sent to Revenue within 3-4 days of receipt and entry to driving record. Additional staff is being trained to assist with deposit process. This should further expedite turnaround time. UMS will continue to enter their own fees that are submitted along with proof of insurance documents in response to schedules and orders of UMS suspensions.

OLS Recommendations:

Employment Agreements
"We recommend that:

- Participating State agencies agree to terms of MOU's before the effective date of the agreements:
- The periods established for reporting costs be coordinated with the period of the MOU; and
- Reimbursement caps established by MOU's be more closely monitored by MVC financial personnel in the future."
MVC Response:
Since the time of the audit finding, MVC has pursued obtaining signed copies for all verbal agreements currently in place with other agencies in the form of Memorandums of Understanding. Furthermore a central repository of all MOU’s has been established to better monitor renewals. MVC in its infancy entered into quick arrangements with a variety of State agencies and explicit formal arrangements are being made for the future. The recommendations of OLS will be closely followed.

OLS Recommendations:
Vehicle Inspection Database
"We recommend that the Commission require Parsons to post unrecorded inspections to the Vehicle Inspection Database as soon as they are discovered or to send copies of the inspection reports to the MVC central office."

MVC Response:
There has been ongoing effort on part of this unit to ensure that all inspections are recorded on the vehicle inspection database (VID). This unit has discovered numerous problems with the system, which has reduced the number of unrecorded inspections to its current level. From April 2003 to March 2004, 2,023 bill discrepancies were discovered in which the number of inspections billed by Parsons to the state did not match MCI or VID totals. These bill discrepancies were due to recordkeeping, operator errors, hardware and software problems. Most recordkeeping and operator errors have been resolved after implementing new audit controls and protocols. The unit was able to work with Parsons to reduce these discrepancies to current levels. It was the constant reminder of the Enhanced I/M Unit which has finally forced Parsons to implement a new software version to capture the remaining missing inspection records. Starting March 15, 2006, Parsons will be manually entering all inspections which were not captured within five (5) days of the initial inspection. Any inspections not captured prior to March 15 will be entered by May 15, 2006. Regarding the confidential fund, an audit of this fund is currently underway by the MVC Internal Audit Unit. Funds have already been audited at the Northern (Morristown) and Central (Asbury Park) Enhanced I/M Auditing Units along with the funds at the Trenton in-house location. The Winslow Enhanced I/M is the only facility remaining to be audited. Anticipated completion of audit is mid March 2006.

OLS Recommendations:
Fixed Assets
"We recommend that the Commission include all equipment and all required information on one central fixed asset record. In addition, every effort should be made to locate and record equipment which was not posted to their records."

MVC Response:
Division of Administration is pursuing an inventory control system to address these issues and a survey has located and recorded the equipment not currently posted to the records.

Confidential Fund
"We recommend that the Confidential Fund be audited."

MVC Response:
Confidential Funds are being audited currently by our Internal Audit Unit. The process is not yet complete. When it is finalized, MVC will submit findings directly to OMB as directed in these audit findings.
OLS Recommendations

Medical Documentation

"We recommend that the Human Resources Unit enforce the requirement regarding sick leave documentation."

MVC Response:
The Human Resources Unit has specifically addressed and issue with the unit that did not adhere to the policy and reiterated the policy to the balance of the MVC.

Respectfully submitted,

Sharon A. Harrington
Chief Administrator