

Discussion Points

Motor Vehicle Commission

29. In the previous two years, New Jersey Motor Vehicle Commission (MVC) annual reports were issued in September of the most recently completed fiscal year. The most current annual report on the MVC website is the 2013 annual report issued in September 2013. No annual report was issued for 2014.

- **Question:** Please provide a financial statement in the same format used for previous annual reports which describes the MVC budget request for FY 2016 and FY 2015 as revised.

NEW JERSEY MOTOR VEHICLE COMMISSION				
FY 2015 vs FY 2016				
	Dollars in 000's	FY 2015 BUDGET	FY 2015 REVISED	FY 2016 BUDGET
RESOURCES				
Reappropriation				
Surplus/(Deficit) Adjustment		\$ 17,711	\$ 25,416	\$ 31,262
Operating Resources				
MVC Base Budget		\$ 297,963	\$ 304,057	\$ 310,059
Security Surcharge (\$7)		42,969	42,969	43,274
Digital Driver License Fee (\$6)		14,398	14,398	14,743
Sub-Total Operating Resources		\$ 355,330	\$ 361,424	\$ 368,076
Dedicated Resources				
Commercial Vehicle Enforcement Fund		\$ 13,273	\$ 13,273	\$ 14,150
Commercial Bus Inspections		714	714	699
School Bus Inspections		1,321	1,321	1,290
Motorcycle Safety Education Fund		541	541	568
Omnibus Safety Enforcement		24	24	24
Security Responsibility		21,296	21,296	21,313
Sub-Total Dedicated Resources		\$ 37,169	\$ 37,169	\$ 38,044
Bond Fund				
Bond Fund Reappropriation		\$ 5,943	\$ 22,395	\$ 17,306
Project Settlement			14,000	-
Bond Fund Interest ⁵		25	12	6
Sub-Total Bond Fund		\$ 5,968	\$ 36,407	\$ 17,312
Grant Funds				
Prior Year Grant Award Balances		\$ 1,215	\$ 2,181	\$ 2,389
Grant Awards		1,806	1,531	1,601
Sub-Total Grant Funds		\$ 3,021	\$ 3,712	\$ 3,990
Transfer Adjustments In/(Out)		\$ 2,600	\$ 2,475	\$ 7,475
TOTAL RESOURCES		\$ 421,799	\$ 466,603	\$ 466,159

Discussion Points (Cont'd)

NEW JERSEY MOTOR VEHICLE COMMISSION
FY 2015 Revised vs. FY 2016 (continued)

EXPENDITURES <i>Dollars in 000's</i>	FY 2015 Budget	FY 2015 Revised	FY 2016 Budget
Operating Expenditures			
Salaries & Fringe	\$ 163,893	\$ 145,905	\$ 157,691
Materials and Supplies	14,337	16,579	14,287
Services Other Than Personal	54,999	56,372	50,697
Parsons Inspection Contract	39,826	41,076	41,076
Maintenance and Fixed Charges	6,439	6,439	6,479
Claims and Indirect	507	507	507
Additions, Improvements, Equipment	3,813	3,813	4,921
Sub-Total Operating Expenditures	\$ 283,814	\$ 270,691	\$ 275,658
Dedicated Fund Supported Expenditures			
Commercial Vehicle Enforcement Fund	\$ 7,712	\$ 7,380	\$ 7,635
Commercial Bus Inspections	2,584	2,584	2,584
School Bus Inspections	8,538	8,534	8,088
Motorcycle Safety Education Fund	370	370	370
Security Responsibility	21,296	21,296	21,313
Sub-Total Dedicated Expenditures	\$ 40,500	\$ 40,164	\$ 39,990
Capital Program	\$ 17,522	\$ 13,993	\$ 17,310
Bond Fund	\$ 5,800	\$ 19,101	\$ 17,264
Grant Award Expenditures	\$ 1,179	\$ 1,323	\$ 1,164
State Budget Contributions	\$ 70,374	\$ 70,374	\$ 108,800
TOTAL EXPENDITURES	\$ 419,189	\$ 415,646	\$ 460,186
TOTAL RESOURCES: ALL FUNDS	\$ 421,799	\$ 466,603	\$ 466,159
TOTAL EXPENDITURES: ALL FUNDS	\$ 419,189	\$ 415,646	\$ 460,186
SURPLUS/(DEFICIT): ALL FUNDS	\$ 2,610	\$ 50,957	\$ 5,973
LESS: BOND & GRANT BALANCES	\$ 2,010	\$ 19,695	\$ 2,874
SURPLUS/(DEFICIT): OPERATING & DEDICATED FUNDS	\$ 600	\$ 31,262	\$ 3,099

Discussion Points (Cont'd)

- **Question:** Please explain any major differences in operating expenses impacting the MVC in FY 2015. What does the MVC estimate for the FY 2015 year end surplus?

MVC Response: The MVC is projecting a net reduction of \$16.988 million its FY 2015 expenditures. The largest contribution is a result of a decrease in the federally-approved fringe rate from 50.75% down to 40.15%, allowing for a \$13.659 million cost reduction. MVC also experienced a \$4.661 million salary reduction through personnel management. Another large savings of \$4.697 million, which was budgeted for MATRX change orders, is no longer necessary due to the termination of Hewlett-Packard for the MATRX project. The settlement terms provided a payment of \$14 million to the Bond Fund. This then allowed MVC to move \$4.451 million that was budgeted from the base operating monies for the Wayne Construction project over to the bond account. Other FY 2015 expenditure reductions include \$750,000 for the delay of the Queuing project to FY 2016, plus \$4,000 in other various reductions.

Offsets to these expenditures amount to \$11.234 million and include \$6.352 million to meet federal mandates of Commercial Driver License Information System Modernization (CDLIS MOD), \$1.250 million for increased inspections counts that were based upon July and August 2014 counts, and \$1.390 million for an additional fit-out of a leased site that does not meet our current business flow.

The MVC also expects revenues to increase by \$6.094 million for registrations, titles and abstracts. In addition, it is projected that \$7.508 million in prior year encumbrance balances will carry-forward into FY 2015.

- **Question:** Please post an annual report for FY 2014.

MVC Response: The Commission is in the process of preparing an FY 2014 – FY 2015 annual report, which will include financial data, arrest data, and recent accomplishments. This report will be circulated to the entire Legislature.

30. In the proposed FY 2016 budget, evaluation data indicates that the MVC performed 5 bus inspections per day in FY 2015 and targeted the same number for FY 2016; however, FY 2015 budget data estimated that 7 bus inspections per day would be performed in FY 2014 with the same number targeted for FY 2015. Average wait time for an inspection in the FY 2015 budget was 5 minutes in FY 2014 and targeted to be 5 minutes for FY 2015 as well. FY 2016 evaluation data has set the wait time at 11.6 minutes for FY 2014, 8 minutes for FY 2015 and a target of 8 minutes for FY 2016.

Discussion Points (Cont'd)

- **Question:** Why has the performance level for bus inspections and customer wait time for inspections declined from last year's evaluation data, and why are the targets for this year set at those lower levels?

MVC Response: MVC's performance in this service area has improved since the inception of this metric in FY 2011. In FY 2012, performance was measured at an average of 4.3 for the year. In FY 2013 and FY 2014, performance was measured at 4.4 and 4.8, respectively. This performance was achieved through process improvements only and without additional resources or investments. The target of 7 *Average Bus Inspections Per Person* was noted as an initial target in 2012 prior to the establishment and measurement of any baseline process. After three years of measurable baseline process performance, MVC has adjusted its target to be more realistic and operationally achievable within the anticipated FY 2016 environment of no additional program or staffing investments.

With regard to vehicle inspection wait time, the original five minute wait time goal was established in FY2012 as the baseline performance target to measure our emissions inspection contractor. Since that time, actual performance has been measured, providing the MVC with approximately 3 years of baseline performance data, upon which a more realistic goal can be based. Analysis of the process has revealed that the original 5 minute statewide average target has been unachievable and has now been updated to reflect actual performance. We believe our new goal of 8 minutes will represent a more realistic expectation for our service vendor.

31. According to the Core Mission Summary for the MVC on pages D-346 to D-347 of the FY 2016 proposed budget, the appropriations for all three core missions total \$315.4 million in FY 2014, \$355.9 million in FY 2015 (+12.8%) and \$325 million in FY 2016 (-8.7%). Funding allocated to the core mission of "Improve Driver and Vehicle Safety" increases from \$101.7 million in FY 2014, 34% of total MVC appropriations, to \$188.5 million in FY 2016, 58% of total MVC appropriations, while funding for the core mission of "Improve Customer Identification and Document Security" declines from \$203.5 million in FY 2014, 65% of total MVC appropriations, to \$125.8 million in FY 2016, 39% of total MVC appropriations.

- **Question:** What MVC activities comprise the core missions of "Improve Driver and Vehicle Safety" and "Improve Customer Identification and Document Security", respectively? What is the amount of staff and salary costs allocated to each core mission in FY 2014, FY 2015 and FY 2016? What factors explain the substantial shift in resources between these two core missions over the period FY 2014-FY 2016?

Discussion Points (Cont'd)

MVC Response: There was an inadvertent transposition of resource data between the “Improve Driver and Vehicle Safety” and “Improve Customer Identification and Document Security” core missions. The core mission of Improving Driver and Vehicle Safety allocation should be \$125.8 million while the core mission of Improving Customer Identification and Document Security allocation should be \$188.5 million. The shift from FY 2014 to FY 2016 is mostly attributable to the increased Bond Fund resources from the termination of the MATRX project.

Improve Driver and Vehicle Safety: MVC activities for this core mission is where the MVC prioritizes its role in protecting NJ roadways by making them safer through the use of improved driver training, driver performance monitoring, driver skills and knowledge testing and by pursuing improved driver behavior by supporting law enforcement and court actions. Additionally, the MVC ensures the quality and safety of vehicles on NJ’s roadways with regard to automobiles, commercial and school buses, and commercial trucks. The public expects the MVC to ensure safety on its roadways regarding both drivers and vehicles alike.

The activities of this core mission entail all aspects of the various inspection programs, the road test unit functions, our correspondence activities (general hot-line information center, email and letter responses), compliance matters such as the Commercial Driver License (CDL) Units and the Medical Review Unit. It also includes the Motor Carriers Unit that deals with the trucking industry regarding the International Registration Program (IRP) and the International Fuel-Tax Agreement (IFTA).

This core mission allocates 576 staff at a salary and fringe cost of \$54.4 million in FY 2016; 568 staff at \$54.5 million in FY 2015; and 547 staff at \$47.7 million in FY 2014.

Improve Customer Identification and Document Security: The MVC activities for this core mission center around public expectations and include a federal mandate that each state motor vehicle jurisdiction support anti-terrorism and anti-fraud efforts. This core mission area declares our commitment to properly identify individuals in this State to reflect true identity as intended by law, so that no individual may assume the identity of another. The same is true for vehicle ownership. Vehicle fraud has the potential to be a lucrative illegal business operation if not kept in check. At the MVC, vehicle fraud takes the form of vehicle title, registration, and certificate-of-origin fraud. It is our business to eliminate identity and document fraud because they represent feeder crimes for other illegal activities. Support for such relevant law enforcement endeavors is provided through our records and archives. It is our core mission to stop criminal fraud at its source.

These activities are supported by our Division of Security, Investigations and Internal Audit with fraud/forgery prevention; our Business and Government Operations Unit that deals with customer abstracts, auto-body shops, etc., and of course our Division of Agency Services, which has the most face-to-face contact with the processing of driver licenses, registrations, titles and road testing.

Discussion Points (Cont'd)

MVC has allocated staff for this core mission of 1,442 staff at a salary and fringe cost of \$125.6 million in FY 2016; 1,587 staff at \$132.8 million in FY 2015; 1,609 staff at \$135.2 million in FY 2014.

- **Question:** What factors explain the total decrease in MVC appropriations of \$30.9 million (-8.7%) from FY 2015 to FY 2016? How will this decrease impact MVC operations?

MVC Response: The \$30.9 million appropriation decrease is a result of the FY 2016 increased State Budget Contributions which will be funded primarily by the projected carry-forward into FY 2016 as addressed in Question #29-b. There will not be an impact on MVC operations.

32. The MVC has the authority to increase certain fees and surcharges without legislative approval.

- **Question:** Please note any new fees or fee changes that have taken place in the last year or are planned for the upcoming year. If there are any changes, please identify the amount of revenue expected to be generated by that change.

MVC Response: The Commission has not increased any fees in the last year and none are planned for the upcoming year.

33. The MVC responded to follow up questions by the Assembly Budget Committee in May 2013 with information concerning a breakdown in MVC revenues between amounts collected for other State departments, amounts collected for MVC operations, and amounts collected from MVC based fees, but directed to the General Fund.

- **Question:** Please provide a display similar to the one provided in response to the Assembly Budget Committee follow-up response in May 2013, which reports actual FY 2014 data, updates the FY 2015 projections, and provides estimates for FY 2016, detailing total MVC revenues. See the following image for the layout used in the FY 2014 response.

Discussion Points (Cont'd)

NEW JERSEY MOTOR VEHICLE COMMISSION			
MVC REVENUES			
(Dollars in 000's)			
	FY 2014 Actual	FY 2015 Projected	FY 2016 Projected
Collections for Other State Departments	\$ 797.4	\$ 797.1	\$ 818.5
Environmental Protection	\$ 3.3	\$ 3.6	\$ 3.0
Health	\$ 10.1	\$ 10.1	\$ 10.1
Law and Public Safety	\$ 46.1	\$ 44.1	\$ 44.3
Transportation	\$ 78.8	\$ 85.9	\$ 80.3
Treasury - Dedicated	\$ 175.4	\$ 166.6	\$ 178.9
Treasury - General Fund	\$ 157.8	\$ 154.0	\$ 160.9
Treasury - Proportional Split	\$ 326.0	\$ 332.8	\$ 341.0
MVC Base Revenues	\$ 301.4	\$ 304.1	\$ 310.0
Registrations	\$ 87.9	\$ 90.3	\$ 93.4
Registration Add-On Fess	\$ 36.7	\$ 37.0	\$ 37.4
Driver Licenses	\$ 18.1	\$ 17.4	\$ 17.9
Titles	\$ 105.3	\$ 104.2	\$ 107.4
Abstracts	\$ 1.8	\$ 1.8	\$ 1.9
Customer Service Information	\$ 2.0	\$ 1.7	\$ 1.5
Information System Sales	\$ 21.2	\$ 25.0	\$ 22.7
License Plates	\$ 0.5	\$ 0.3	\$ 0.5
Business Licensing	\$ 1.1	\$ 1.3	\$ 1.0
Inspections: Salvage	\$ 0.5	\$ 0.5	\$ 0.6
Fines - MVC	\$ 10.4	\$ 10.3	\$ 11.0
Fines - AOC	\$ 1.6	\$ 1.6	\$ 1.6
International Registration Plan	\$ 10.9	\$ 10.5	\$ 11.1
Market Transition Facility	\$ 1.5	\$ 1.5	\$ 1.5
Other Revenues	\$ 2.1	\$ 0.8	\$ 0.8
Refunds/Returned Checks	\$ (0.1)	\$ (0.2)	\$ (0.1)
MVC Dedicated Revenues	\$ 95.6	\$ 94.5	\$ 95.9
Security Surcharge - Registrations	\$ 42.4	\$ 42.9	\$ 43.2
Driver License Photo Fee	\$ 14.4	\$ 14.4	\$ 14.7
Security Responsibility Fund	\$ 20.9	\$ 21.3	\$ 21.3
Commercial Vehicle Enforcement Fund	\$ 13.9	\$ 13.3	\$ 14.2
Commerical Bus Program	\$ 0.7	\$ 0.7	\$ 0.7
School Bus Program	\$ 1.3	\$ 1.3	\$ 1.3
Motorcycle Safety Education Fund	\$ 0.6	\$ 0.5	\$ 0.6
Omnibus Safety Enforcement	\$ 0.02	\$ 0.02	\$ 0.02
Total Revenue Collections	\$ 1,194.4	\$ 1,195.8	\$ 1,224.5

Discussion Points (Cont'd)

34. In response to FY 2015 discussion points, the MVC stated that MATRX release 2 would be implemented by the Spring of 2015 based on a schedule provided by Hewlett Packard (HP) that the MVC had not yet accepted. The Release 3 implementation date was unknown at that time because of the need to focus on fixing defects in Release 2.

The MATHTECH contract expired in November 2014 and the MVC stated that it would seek a third-party oversight vendor through an existing State contract, rather than renew the MATHTECH contract.

- **Question:** Please provide an update on the status of the MATRX program. Are the releases proceeding according to schedule? Given the annual revisions to completion dates, how confident is the MVC that these release dates will be the actual implementation dates for the MATRX project?
- **Question:** Please provide an update on the third party oversight contract.
- **Question:** Please provide an update on costs for MATRX and the third party oversight contract. Have there been any contract changes entailing new overall contract costs? Have any payments on existing contract costs been made in the past fiscal year? If so, how much? Please provide an update on the current overall cost of both the MATRX and third party oversight contract, including the cost of "optional engagements" and other incidental costs not directly tied to the original contract but part of the overall project.

MVC Response: The State terminated the MATRX contract with HP for convenience on January 28, 2015.

To move the Commission forward in modernizing our computer systems and providing the necessary services, we have identified four major projects in addition to completing the Commercial Driver License Information System Modernization. The four projects are: Agency Replacement System, Multi-Scheduling System, Customer Abstract Information Retrieval System (CAIR), and Securing MVC Processes and Scanning.

- **Question:** Please provide an update on the third party oversight contract.

MVC Response: The contract with MATHTEC, the third party oversight vendor, expired September 30, 2014. The State did not renew their contract as we were out of extensions and because the MATRX project was suspended as of July 24, 2014.

Question: Please provide an update on costs for MATRX and the third party oversight contract. Have there been any contract changes entailing new overall contract costs? Have payments on existing contract costs been made in the past fiscal year? If so, how much? Please provide an update on the current overall cost of both MATRX and third party oversight contract, including the cost of "optional

Discussion Points (Cont'd)

engagements" and other incidental costs not directly tied to the original contract but part of the overall project.

MVC Response: The State terminated the contract with HP on January 28, 2015 for the MATRX project and the MATHTEC contract ended on September 30, 2014. Of the original contract that was bid in 2008, the State paid \$21.0 million for deliverables accepted by the State. During the past fiscal year there have not been any payments made to HP because we did not accept any of their deliverables.

MATHTEC, the third party oversight vendor has been paid \$13.3 million for managerial oversight in years FY 2009 to FY 2014.

35. On December 22, 2014, the Office of the State Auditor issued an audit report covering MVC revenue matters for the period of July 1, 2011 to August 31, 2014. The audit included revenues collected by the MVC's physical headquarters, which averaged \$133 million per year. Agency-level transactions, electronic transactions, and transactions initially received by another government entity were excluded from the audit. The audit also included an evaluation of business controls over the MVC's internal accounting system, which the report described as a comprehensive system that records MVC revenues from all locations and interfaces with the state's accounting system. According to the report, total annual revenue reported to the state for all MVC activity was approximately \$1.1 billion during the three fiscal years audited.

Among the State Auditor's conclusions was that "...the MVC's Financial Management division has not provided adequate direction to the numerous units within their headquarters which collect revenue. As a result, there are weak internal controls over the collection, recording and depositing of revenue at MVC headquarters. Collection duties throughout the headquarters are not properly segregated which has created the potential for internal fraud to be perpetrated." The audit also observed that "[t]he Financial Management division is strained from the reduction of staff due to retirements or other voluntary terminations. The revenue section in particular is currently operated by staff that has limited knowledge of the functionality of the accounting system and do not have a thorough grasp of the various businesses conducted within the headquarters."

- **Question: Did the MVC concur with the above conclusions of the State Auditor? What specific steps have been taken to address Financial Management division staff reductions, properly segregate collection duties and improve the knowledge and capabilities of the revenue section staff? Is MVC management confident that these actions fully resolve the issues raised, and eliminate insofar as possible, the potential for internal fraud?**

Discussion Points (Cont'd)

MVC Response: The Commission does report revenues of more than \$1.1 billion to the State's accounting system; however, the revenues collected at the Trenton Office Complex average \$7.3 million annually, not the indicated \$133 million. The MVC concurs with some of the findings in the Revenue Audit Report. However, the various types of business conducted through the mail, such as an application for an automobile dealer or a salvage titles, may take longer to process. The Commission is reviewing its business processes to ensure adherence to Treasury's Circular Letter 12-02 OMB. The segregation of duties is critical to revenue collection and the Commission is reviewing the current staffing complement in order to determine what is needed.

The Division of Financial Management has developed a training manual for all staff that handles revenues for the Commission. Training for all pertinent staff is ongoing.

In regard to staffing within Financial Management, the Commission does not concur with their statement regarding the staff currently performing revenue functions. The current staff is operating the Oracle Revenue Reporting System and clearly understands the Oracle and NJCFS accounting systems. The Commission has been provided with the ability to hire two more staff persons within the division. It is anticipated that new staff will be onboard prior to the end of the fiscal year.