



Department of Public Safety
Bureau of Motor Vehicles Tax Distribution
Audit

Audit Period: April 1, 2010 through August 31, 2010



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Executive Summary

Background

The Department of Public Safety's Bureau of Motor Vehicles (BMV) is responsible for licensing drivers, registering motor vehicles, and titling. The BMV's goal is to provide prompt, courteous, and efficient service to the public while fulfilling its obligations as set forth in the motor vehicle laws of the State of Ohio.

The funding for the BMV program is used to support licensing, registration, titling services and activities, including but not limited to:

- Registration of approximately 12 million motor vehicles;
- Ensuring the proper collection and distribution of vehicle licensing revenue for over 2,300 taxing districts and other governmental entities. In fiscal year 2008, over \$471 million was collected and distributed to more than 2,300 local taxing districts and counties for the purpose of maintaining Ohio's roadways;
- Licensing and regulation of motor vehicle sales, leasing, and salvage industries. Over 21,000 licenses have been issued to motor vehicle dealerships;
- Oversight of 201 deputy registrars (private contractors) and 12 limited authority deputy registrars;
- Operation of one customer service center, seven reinstatement offices, and two central service operations; and
- Credentialing for approximately 8.7 million individuals who have driver's licenses or state identification cards.

On June 15, 2010, OIA issued a BMV report on the awarding process for Deputy Registrar offices and the monitoring of offices. This audit focuses on the process for collecting revenue from the Deputy Registrar offices and the internal agency, as well as the monitoring of revenue collection.

During the audit, OIA identified opportunities for BMV to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank BMV staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.



Scope and Objectives

OIA staff was engaged to perform assurance work related to the BMV Tax Distribution audit. This work was completed between April 1, 2010 and August 31, 2010. The scope of this audit included the following areas:

- Receipt of revenue process
 - Deputy Registrar; and
 - Internal Agency

The following summarizes the objectives of the review along with a conclusion on the effectiveness of management's internal controls.

Objective	Conclusion ¹
Evaluate the design and effectiveness of the controls over recording the receipt of funds into BASS for the revenue received from the Deputy Registrar Offices.	Well Controlled with Improvements Needed
Evaluate the design and effectiveness of the controls over the reconciliation process for the revenue received from the Deputy Registrar Offices.	Well Controlled
Evaluate the design of the controls over revenue received by the internal agency.	Improvements Needed – See Observations 1, 2, and 3
Evaluate the design of the controls over the reconciliation process by Division of Fiscal Administration's Internal Agency Unit for revenue received by the internal agency.	Well Controlled

¹ Refer to [Appendix A](#) for classification of audit objective conclusions.



Summary of Observations

The Summary of Observations includes only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions above.

No.	Observation	Risk ²
1.	Outsource Monitoring - IRP – The International Registration Plan (IRP) is an agreement for motor carriers in the United States and Canada that generates over \$100 million per year. The vendor is responsible for receiving IRP customer registration applications, processing the applications and assessing the registration fee, receiving and recording registration payments, and depositing the payments into a state controlled bank account. The contract specifies the vendor is to perform various functions on behalf of BMV and provide the deliverables to BMV. However, there is a lack of a formalized monitoring process of the contract requirements.	High
2.	Inadequate Safeguarding of Assets – Payment Processing Section – Revenue Management’s Payment Processing staff place processed funds on top of the safe at the end of the day. The last supervisor leaving for the day locks the money in the safe. There currently is no process in place for the supervisor to know whether processed funds placed on the safe are complete.	Moderate
3.	Segregation of Duties – Payment Processing Section – Proper segregation of duties prevents incompatible duties from being performed by staff in high risk areas. Revenue management’s payment processing staff have access to open mail containing payments, restrictively endorse payments, enter the invoice amount into BASS, enter the payment amount into Check 21, and investigate discrepancies in cash.	Moderate

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

² Refer to [Appendix A](#) for classification of audit observations.



Detailed Observations and Recommendations

Observation 1 – Outsource Monitoring - IRP

Operations provided by an outside vendor require the responsible organization to have well-defined oversight and monitoring procedures to ensure contractual obligations and deliverables are met and risk is minimized to an acceptable level.

The International Registration Plan (IRP) is an agreement for motor carriers in the United States and Canada that generates over \$100 million per year. The vendor is responsible for receiving IRP customer registration applications, processing the applications and assessing the registration fee, receiving and recording registration payments, and depositing the payments into a state controlled bank account.

The contract specifies the vendor is to perform various functions on behalf of BMV and provide the deliverables to BMV. However, there is a lack of a formalized monitoring process of the contract requirements. Noncompliance with contract requirements can lead to loss of inventory and loss of registrant information due to undetected or unsecure web hosting environments. Also, BMV cannot validate it has received all the revenue collected and processed by the vendor if contract requirements are not monitored.

Recommendation

BMV should develop and implement a monitoring program to ensure the vendor complies with its contractual obligations in accordance with BMV management's expectations. Specifically, BMV should develop monitoring procedures that align with the vendor's contract requirements. BMV management should consider conducting site visits at the vendor facilities and desk reviews of documentation or reports based on transactions performed by the vendor.

In addition, BMV should request and review the vendor's SAS 70 report to evaluate whether any deficiencies exist in information systems that could affect BMV's transaction processing.

Management Response

The Deputy Registrar & Administrative Services Section is currently implementing a plan to monitor and ensure the vendor has met its contractual obligations. We are implementing a site visitation plan to the four IRP branch offices and a procedural review process. We are planning to complete multiple site visits per year by utilizing current staffing resources. Our plan is to:

- Ensure each IRP location is visited at least once per quarter,
- Observe and assess customer service phone calls, walk-in traffic, and End of Day reporting,
- Compile customer feedback, and
- Collect and discuss information quarterly, providing feedback to vendor and reporting to BMV leadership.



The SAS 70 is a report created by our vendor, which provides a contractual risk assessment from an automated information technology point of view and identifies an opportunity for process resolutions. We will use the report to:

- Facilitate discussions with between the vendor and ODPS Information Technology,
- Report findings to the vendor and BMV Leadership, and
- Follow-up to resolve any discrepancies.

Risk	Remediation Owner	Estimated Completion Date
High	Chief, Deputy Registrar and Administrative Services Section	March 2011



Observation 2 – Inadequate Safeguarding of Assets – Payment Processing Section

Monetary assets such as cash, checks, and money orders, should be properly secured and safeguarded until the funds are deposited.

Revenue Management’s Payment Processing staff place processed funds on top of the safe at the end of the day. The last supervisor leaving for the day locks the money in the safe.

There currently is no process in place for the supervisor to know whether processed funds placed on the safe are complete. Not properly securing the funds can result in a misappropriation of funds.

Recommendation

The department should enact procedures to better secure assets to avoid monies being misplaced or misappropriated.

Management Response

This recommendation has been adopted. Effective November 18, 2010:

- 1) All deposits, checks, etc. are kept in a locked safe.
- 2) When the deposit for Brinks is ready, an e-mail is sent to everyone on the management staff stating the deposit has been reviewed and is ready for Brinks and that the deposit is in the safe at the front desk.
- 3) At the end of the day all checks that have not been deposited are taken to a supervisor and the supervisor immediately puts the checks in the safe.
- 4) When the safe is opened in the morning, the checks in the safe (from the previous day) are hand-delivered to the employee preparing the Payment Processing’s deposit for the day.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Chief, Revenue Management	December 2010



Observation 3 – Segregation of Duties – Payment Processing Section

Proper segregation of duties prevents incompatible duties from being performed by staff in high risk areas. The general premise of segregation of duties is to prevent one person from having both access to, or custody of, assets while also retaining responsibility for maintaining the accountability of those assets.

Revenue management’s payment processing staff have access to open mail containing payments, restrictively endorse payments, enter the invoice amount into BASS, enter the payment amount into Check 21, and investigate discrepancies in cash. These same employees also process an average of \$3,275,197 of payments a month. Inadequate segregation of duties can result in the misappropriation of assets.

Recommendation

Revenue management should maintain appropriate segregation of duties to allow for adequate oversight of staff and protection of cash so that no one employee has the ability to control multiple phases of a transaction. A policy should clearly distinguish any incompatible roles and establish compensating controls as needed.

When payment processing staff void a transaction in BASS, BMV management should require supervisory approval be obtained prior to posting the transaction. Periodically, the supervisor should review a list of voided activity and document a review was performed.

Management Response

We accept this recommendation and will change Payment Processing unit procedures where possible to segregate duties. The reduction of employees in the Payment Processing unit from thirteen to the current seven over the last several years has limited the capability to separate all duties. We have implemented a number of controls to help limit inherent risks when employees control more than one step in a process, but we agree that the Payment Processing unit procedures should be re-evaluated and changes made to segregate duties as much as staffing allow.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Chief, Revenue Management	March 2011



Appendix A – Classification of Audit Objective Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvements Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	State Audit Committee, Senior Management, Department Management
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	State Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), State Audit Committee (Not reported)



Appendix B – Audit Follow-up Procedures

OIA will periodically follow-up on management's plans to remediate high and moderate risk audit observations. Follow-up activities may generally be broken down into three categories:

- Detailed** Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit observations usually require detailed follow-up.

- Limited** Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, cannot be accomplished through memos or telephone conversations with the audit customer but requires onsite observation or testing.

- Informal** This is the most basic form of follow-up and may be satisfied by review of the audit customer's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical observations.

Low risk audit observations will not result in an OIA audit follow-up, although these observations will be factored into the continuous risk assessment process for future OIA engagements.