

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF MOTOR VEHICLES
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 and 2004**

**AUDITORS OF PUBLIC ACCOUNTS
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May 19, 2006

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We have made an examination of the financial records of the Department of Motor Vehicles (DMV) for the fiscal years ended June 30, 2003 and 2004. This report thereon consists of the Comments, Condition of Records, Recommendations and Certification that follow.

Financial statement presentation and auditing are done on a Statewide Single Audit basis and include all State agencies. This audit has been limited to assessing the Department of Motor Vehicles' compliance with certain provisions of financial related laws, regulations and contracts, and evaluating the Department's internal control structure, policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The role and responsibilities of the Department of Motor Vehicles are identified primarily under Title 14, Chapters 246 through 255 of the General Statutes. The Department's principal function is the licensing and registering of drivers, automobiles, dealers and repairers. The Department also administered, through various contractors, the State's auto emissions inspection program.

Gary J. DeFilippo served as Commissioner during the audited period. He was succeeded on February 1, 2005, by Ralph J. Carpenter.

Legislative Changes:

Significant legislative changes enacted during the audited period are described below:

Public Act 03-01 (June Special Session) – This Act made certain changes to the DMV Statutes by creating a nonlapsing Transportation Strategy Board Projects Account within the Special Transportation Fund. The Act required five million dollars of the money received from fees authorized by Section 14-50a of the General Statutes to be deposited into the Account for the fiscal year ended June 30, 2004. On and after July 1, 2005, one-half of the incremental revenues received pursuant to Section 14-50a, as amended, are required to be deposited into the Account. Said Act also changed the fees prescribed by Section 14-50a.

Public Act 03-04 (June Special Session) – This Act increased several fees and designated the incremental increases to be deposited to the Transportation Strategy Board Projects Account.

Public Act 04-126 – This Act requires towns to pay annual fees, based on their population, to DMV in order to participate in the delinquent property tax enforcement program. The fee charged is based on the cost of the Program, as reported by DMV to the Office of Policy and Management.

Public Act 04-177 – This Act revised the General Statutes governing the Transportation Strategy Board (TSB), by accelerating from July 1, 2005 to July 1, 2004 the transfer of one-half of the incremental revenues discussed in Public Act 03-01 (June Special Session).

Public Act 04-182 – This Act increased certain DMV fees and authorizes DMV to suspend or revoke the registration of any vehicle owner who fails to pay any fee required under the motor vehicle emissions program.

Public Act 04-199 – This Act made numerous changes to the General Statutes governing the Department of Motor Vehicles. Included in these provisions is the repeal of the Uninsured Motor Vehicle Forfeiture Revolving Account.

RÉSUMÉ OF OPERATIONS:

General Fund:

Department of Motor Vehicles General Fund cash receipts totaled \$1,482,524, \$1,268,051 and \$286,823 during the fiscal years ended June 30, 2002, 2003 and 2004, respectively. The decrease in General Fund revenue was attributable to legislative changes authorizing certain revenues to be deposited to the Special Transportation Fund.

General Fund expenditures amounted to \$1,660,683, \$2,184,027, and \$-0- during the fiscal years ended June 30, 2002, 2003 and 2004, respectively. The decrease in expenditures from fiscal year 2003 to 2004 was primarily due to a change in accounting procedures resulting from

implementation of a new State accounting system. That system established new Special Revenue Funds entitled “Grants and Restricted Accounts Fund” and the “Transportation Grants and Restricted Accounts Fund” to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund or Transportation Fund, respectively. Further comments on this Fund are presented below.

Special Revenue Funds – Federal and Other Restricted Accounts:

As previously explained, beginning with the 2003-2004 fiscal year, Federal grant and other restricted account activity previously recorded in the General and Transportation Funds was recorded by the Comptroller in newly established Special Revenue Funds.

Expenditures of these Funds, as recorded by the State Comptroller for the fiscal year ended June 30, 2004, totaled \$8,027,115. A summary of Fund expenditures is presented below:

Salaries and related	\$ 1,359,667
Other expenses	6,502,360
Equipment	<u>165,088</u>
Total	<u>\$ 8,027,115</u>

Special Transportation Fund:

In accordance with Section 13b-61, subsection (b) of the General Statutes, the majority of the Department of Motor Vehicles’ revenues are deposited to the Special Transportation Fund. The following schedule outlines the Department’s deposits to the Special Transportation Fund:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Registrations	\$ 172,971,223	\$165,123,819	\$162,240,281
Temporary registrations	6,298,527	5,746,300	6,455,027
Operator licenses	34,939,889	29,806,395	27,837,632
Inspection of motor vehicles	3,763,113	3,592,808	3,571,818
Certificates of title	22,847,970	22,208,840	22,027,387
License examinations	6,174,086	5,852,031	5,966,156
Late fees, fines and costs	9,984,806	9,409,689	9,181,480
Interstate carrier permits	3,081,335	3,166,675	3,239,705
Safety plate fees	3,018,012	2,934,690	2,998,257
Emissions late fees	320	-	7,345,080
Emissions Exemptions- 4 Years	10,179,800	9,921,515	-
Sale of commercial information	26,114,734	12,809,270	9,990,188
Federal Clean Air Act	8,959,876	8,769,777	6,610,961
Sales and Use Tax Collected	14,270,732	477,120	-

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All others	<u>5,465,702</u>	<u>4,802,347</u>	<u>4,926,479</u>
Total	<u>\$328,070,123</u>	<u>\$284,621,276</u>	<u>\$272,390,451</u>

In accordance with the provisions of Section 14-49b of the General Statutes, as amended by Public Act 01-09, Section 79, for each new registration or renewal of any motor vehicle, a fee shall be paid to the DMV of ten dollars per registration for a biennial period and five dollars per registration for an annual period. This fee is to be identified as the “Federal Clean Air Act fee” on any registration form provided by the Commissioner. Payments collected shall be deposited as follows: Fifty-seven and one-half percent to the Special Transportation Fund and forty-two and one-half percent to a separate, nonlapsing Federal Clean Air Act account which shall be established by the Comptroller within the General Fund. The account is to be used to pay any costs to State agencies of implementing the requirements of the Federal Clean Air Act Amendments of 1990.

In accordance with the provisions of Section 13b-69, subsection (b) of the General Statutes, the Department of Motor Vehicles’ annual budgeted appropriations and expenditures were funded from the Special Transportation Fund:

	Fiscal Year Ended June 30,		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Personal Services	\$ 32,474,120	\$ 35,117,385	\$ 36,586,997
Other Expenses	14,121,077	14,156,045	13,386,856
Equipment	747,550	609,011	664,562
Reflective License Plates	69,290	1,555,086	4,457,206
Insurance Enforcement	346,693	545,683	459,542
Marine Vessel Account	-	428,247	412,710
Other	931,492	54,591	202,256
Total	<u>\$ 48,690,222</u>	<u>\$ 52,466,048</u>	<u>\$ 56,170,129</u>

Emissions Enterprise Fund:

A vehicle inspection program, under Title 14, Chapter 246a of the General Statutes, requires that all motor vehicles registered in the State, except for those specifically exempt by law, be inspected for auto emissions. The statute also authorizes the Commissioner to enter into an agreement with an independent contractor to provide for the construction, equipping, maintenance and operation of inspection stations to provide emissions inspections.

The Department’s Emissions Division was responsible for the regulatory functions of the program and for monitoring the contractor for contract compliance. The Emissions Enterprise Fund accounts for the operations of the program.

The following summary shows revenues and expenditures of the Fund during the audited period:

	Fiscal Year Ended June 30,		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenue:			
Inspection fees	\$190,348	\$ 574,041	\$ 28,582,116
Investment income	120,245	137,811	196,397
Total Revenue	<u>310,593</u>	<u>711,852</u>	<u>28,778,513</u>
Expenditures:			
Personal services and Fringe Benefits	3,906,623	4,202,555	4,463,264
Outside professional services	-	2,770,710	25,634,711
All other expenditures	858,920	480,095	3,636,315
Total Expenditures	<u>4,765,543</u>	<u>7,453,360</u>	<u>33,734,290</u>
Excess of Revenue over Expenditures	(4,454,950)	(6,741,508)	(4,955,777)
Appropriation Transfer	6,500,000	6,500,000	6,500,000
Fund Balance at Beginning of Year	10,318,377	10,559,885	9,015,662
Fund Balance at End of Year	<u>\$ 12,363,427</u>	<u>\$ 10,318,377</u>	<u>\$ 10,559,885</u>

The implementation of Public Act 01-09 impacted the Fund because DMV no longer receives testing fees or makes payments to the emissions contractor. Instead, fees go directly to the contracted vendor and the repair facilities that participate in the emissions testing program. In accordance with Section 14-164m of the General Statutes, the State Comptroller makes quarterly transfers totaling \$6,500,000 annually from the Special Transportation Fund to the Emissions Enterprise Fund.

Other Receipts:

DMV utilizes the State's Pending Receipts Fund to account for fees collected on behalf of other states under the International Registration Program, title security bonds in the form of cash and all other cash bonds. Total deposits were \$3,879,000, \$3,846,598 and \$3,709,836 during the fiscal years ended June 30, 2002, 2003 and 2004, respectively.

The Department of Motor Vehicles collected the following receipts that were credited to other State agencies. A comparative summary, per the Agency's records, follows:

	Fiscal Year Ended June 30,		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sales tax	\$ 71,275,492	\$ 65,859,238	\$ 65,575,479
Federal Clean Air Act fee	6,621,546	6,476,667	5,965,910
Boat registrations	5,242,343	5,078,373	5,004,949
Long Island Sound plates	220,553	237,280	326,706
Motorcycle rider education	177,104	162,176	150,880
Other miscellaneous receipts	123,132	121,119	100,170
	<u>\$ 83,660,170</u>	<u>\$ 77,934,853</u>	<u>\$ 77,124,094</u>

In addition to the above receipts, DMV collected \$1,231,925 allocated to the Transportation Strategy Board in the fiscal year ended June 30, 2004. A transfer of \$11,618,302 also occurred during that year.

State Capital Projects:

Expenditures for State capital projects totaled \$65,636 during the audited period. Most of the funds were expended for branch office capital improvements. The projects were financed from Capital Projects Funds and administered by the Department of Public Works.

CONDITION OF RECORDS

Areas in need of improvement are presented in this section of the report.

Diesel Commercial Vehicle Emissions Testing Program:

Criteria: Section 14-164i of the General Statutes established a Diesel-Powered Commercial Vehicle Emissions Testing Program. Said Section, with corresponding Regulations established by the Department of Motor Vehicles, generally describes the objectives of the Program and how the Program should operate. Included in these references is a statement that “No diesel-powered commercial motor vehicle shall be operated on the highways of this State unless such vehicle complies with the provisions of this section and the regulations adopted by the commissioner”. Best estimates place the number of diesel powered vehicles operating in the State at approximately 20,000.

Section 14-164i, subsection (b), of the General Statutes states that emissions inspections “shall be performed in conjunction with any safety or weight inspection at any official weighing area or other location designated by the Commissioner.” In lieu of this, DMV can accept the results of self-testing performed by fleets, as well as testing done at licensed repair facilities.

This Section also provides for penalties in the event of noncompliance, and provides for higher penalties for repeat offenders.

Documents used to provide evidence that the required repairs were performed include an affidavit signed under penalty of false statement.

Condition: The Department of Motor Vehicles has devoted a limited amount of resources to this program. The Department does not have a process in place to ensure that all affected vehicles are tested on a regular cycle. DMV records indicate that approximately 2,000 vehicles are tested each year. While the fleet program has been officially launched, DMV has not established a program to license other repair facilities to perform inspections. Also, DMV has not implemented a procedure to test the emissions of all vehicles that are examined for safety and weight as apparently required by Statute. Together, these two issues contribute to the Department’s inability to test the anticipated number of vehicles.

In addition, DMV does not have a sufficient process in place to track repeat offenders because the offender status is ultimately determined by the courts, and DMV doesn't have access to adjudicated court records at the time the summon for the offense is written.

Four of the 10 files examined failed to include the attestation, signed under penalty of false statement, of the person performing the repairs.

Effect: The number of trucks tested annually appears insufficient to accomplish the legislative objective of the Program.

The lack of effective enforcement mechanisms in the form of increased fines and false statement provisions does little to promote compliance.

Cause: In addition to a lack of administrative control, the Department has not interpreted the law to require the testing of every vehicle at the time of all inspections.

Recommendation: The Department of Motor Vehicles should continue efforts to implement testing procedures and enforcement provisions for the Diesel Commercial Vehicle Inspection Program in accordance with the provisions of Section 14-164i of the General Statutes or seek amendments to the relevant legislation to clarify the Department's responsibilities. (See Recommendation 1.)

Agency Response: "This Agency has a different interpretation than the auditors concerning the legal requirements of Section 14-164i. In quoting "no diesel-powered commercial motor vehicle shall be operated on the highways of this state unless such vehicle complies with the provisions of this section and the regulations adopted by the commissioner," the auditors are placing responsibility upon this department to perform heavy duty diesel inspections on all Connecticut registered vehicles meeting the definition. We do not believe this to be the case and see it as the carrier's responsibility to ensure that their vehicles comply with established standards. The Department's responsibility is to randomly conduct inspections in order to monitor compliance with the established standards and sanction those operating in violation of these standards. Currently there is no law in this state that mandates DMV or the industry to conduct heavy-duty diesel emissions inspections, annually or otherwise, on all Connecticut registered trucks. At present, DMV Inspectors conduct random samplings at

roadside, at a carrier's facility if requested, or through the "voluntary" Fleet/Dealer self-testing program. With the exception of roadside inspection, all other inspections/testing is done voluntarily by the industry.

DMV also has a difference of opinion concerning the statement that, "DMV has not implemented a procedure to test the emissions of all vehicles that are examined for safety and weight as apparently required by Statute." The Statute reads that emissions inspections "shall be performed in conjunction with any safety or weight inspection at any official weighing area" DMV does not see this as meaning that it subjects all trucks to both safety and emissions inspections. DMV takes this as meaning that, at the times it is conducting safety inspections within the confines of a fixed weigh station, it will simultaneously conduct diesel inspections at that facility.

As these tests measure smoke 'opacity', probable cause to conduct a diesel emission inspection is very easily obtained through the naked eye, conversely there is little or no reason to subject a non-smoking truck to needless delays. It should be pointed out that these diesel emissions tests are limited to weather conditions and temperature, which makes it a seasonal operation as it relates to weigh stations. It is not the intent to further delay or impede commerce by tying trucks up even longer by way of subjecting them to two or three separate inspections during a single stop. In fact, such occurrences would conflict with several state and federal initiatives to maintain the least amount of impact and/or interruption upon interstate commerce. Logistically, it would be impossible to conduct a universal type of program, for all diesel-powered trucks, even to cover all Connecticut-registered trucks. Such a program would have to be combined in some fashion with the passenger car emissions program.

Nevertheless, DMV will seek a legal interpretation of these statutory provisions that are being interpreted differently and will determine an appropriate remedial plan of action, as necessary, following receipt of such.

Since the auditor's visit, DMV has brought to being assurances that the filing system will bring repeat offenders to its immediate attention. Inasmuch as a 'repeat' would be dependent upon a conviction through the judicial process, not the mere issuance of a ticket, it is the agency's intent to work closely with the courts in

order to secure convictions for those carriers cited for a violation of diesel emission standards.

DMV has and continues to be very active in the pursuit and signing-on of fleet owners and licensed heavy-duty truck dealers/repairers to take part in the voluntary self-testing program. Since the auditors visit, two (2) additional companies have been added to the program. Inquiries continue to be made by industry and dealers/repairers alike. It is DMV's intent to pursue this with even greater vigor, especially as those currently in the program begin spreading the word to their counterparts about its benefits and successes.

On a final note, DMV is looking into the securing of required signatures, upon official documents, attesting to and certifying that the repairs necessary to bring the vehicle(s) into compliance with diesel emissions standards have been successfully performed on all vehicles that were cited. It should be noted that verbal correspondence is initiated with carrier officials and/or a representative of the repair facility in those cases where documenting procedures are not initially followed by the vehicles' owner/operator. All future follow-up, verbal or otherwise, will be documented and become a permanent part of the subject file."

Revenue Accountability Reports:

Criteria: In accordance with the State of Connecticut's State Accounting Manual, accountability reports should be periodically prepared for all major sources of revenue to compare the amounts that were actually recorded with the amounts that should have been accounted for.

Condition: As noted in previous audits, the Department has a cash accounting system that appears to accurately account for the transactions that are processed. However, in order to produce an accurate accountability report for each revenue type, the transactions processed by the Department should be compared to the number of records added in the various databases. A process to perform these types of reconciliations was not in place during the audited period. The Department was in the process of evaluating proposals from outside vendors that would include the establishment of relational databases necessary to perform the required reconciliations.

- Effect:* The failure to produce accountability reports increases the risk that erroneous transactions will go undetected. Such a process would also serve to detect unauthorized changes that may be made to the various databases without the processing of a cash transaction.
- Cause:* The volume and the number of different transaction types that DMV processes can make the reconciliation process cumbersome. In addition, the lack of relational databases within the various licensing and registration databases prevents the ready accumulation of the necessary data.
- Recommendation:* The Department should continue its efforts to pursue system upgrades that will enable the preparation of accountability reports for the primary sources of revenue. (See Recommendation 2.)
- Agency Response:* “The process to upgrade the registration and license systems to relational databases is ongoing. Upon completion, the agency will be able to produce historical reports to verify transactions to their related receipts.”

Dealers and Repairers Unit:

- Background:* DMV’s Dealers and Repairers Unit is responsible for licensing facilities and investigating complaints against licensees. These complaints could relate to vehicle sales and warranty issues, repair practices, or towing and storage issues.
- Criteria:* Proper internal control dictates that for purposes of case management, a chronological log of significant actions taken should be maintained for each investigative case assigned. Prompt investigation of cases is desirable to resolve potentially significant internal control deficiencies and perhaps inhibit continued activities that are not in compliance with laws and regulations. Case management databases should provide up-to-date information on all cases.
- In order to efficiently promulgate findings and recommendations to management, as well as justifying time spent on a case, reports should be promptly reviewed by supervisors and distributed as deemed necessary.
- Original records should be maintained in secured locations to prevent loss and make them available in the event a supervisor wants to examine them or they are needed for court.

Section 14-52, subsection (a), of the General Statutes prohibits selling or repairing motor vehicles without a license. Subsection (c) permits the Commissioner of Motor Vehicles to obtain information pertaining to the financial status of applicants in order to determine if the applicant has sufficient resources to conduct business. Subsection (e) states that the DMV Commissioner shall transmit to the Commissioners of Revenue Services and Environmental Protection a summary of any complaint received by DMV alleging unlicensed operation.

Section 14-66, subsection (c), of the General Statutes provides that the biennial registration fee for wreckers is to be set at \$125.

Condition:

Reports produced by the Dealers and Repairers Unit indicated a total of 800 open cases at the time of our inquiry. Only 212 of these cases were regarded as current, and 261 cases were over six months old. Further review found that approximately 75 of the older cases were wrecker inspections. These inspections had been performed, but delays in producing reports to the supervisors caused these cases to remain open for up to two years.

Reviews were done of 45 of the cases open more than 180 days. Twenty-four of these cases appeared to essentially be closed, yet the case management database still reflected them as open cases.

We noted that DMV was not referring allegations of unlicensed operation to the other State agencies as required. Only cases in which summons were issued received the correct handling. In addition, we found that unconfirmed cases of unlicensed operation were issued written warnings on a form designed for inoperative equipment. There was no apparent authorization for the issuance of such warnings, and the form appeared to be inappropriate for such a use.

The Department chose in many instances to require applicants and renewing licensees to furnish the financial data referred to in Section 14-52, subsection (c). However, we found that the DMV staff assigned to evaluate the data had been given little guidance as to how to interpret financial statements. The form designed by DMV appeared to have incorrect references to accounting terminology, as evidenced by the large number of calls the DMV claims to receive regarding the form.

Many inspectors kept the original case files in their vehicles in order to facilitate access to the records.

DMV does not have a process in place to track the amount of time each inspector spends on a particular case.

The Dealers and Repairers Unit is responsible for collecting payments made by licensees as the result of stipulated agreements. However, the Unit does not get notice of the amount due until it is received. This prevents the independent reconciliation and reporting of amounts due.

We found that Dealers and Repairers was renewing wrecker registrations on an annual basis, rather than biennially as required by statute.

Effect:

Public confidence in the governmental function is reduced if there is no evidence of complaints receiving attention. The lack of accurate data in case management databases reduces the value of the system as a managerial tool.

Statutory requirements of notification to other agencies of unlicensed operators are not being adhered to.

Reliance on the financial data submitted to the Department may be misplaced if the staff are not adequately trained and the form is misunderstood by licensees and their accountants.

The risk of loss of case files is dramatically increased if they are kept in the inspectors vehicles. This practice also impedes the ability of supervisors to review the status of a case.

There is reduced accountability for the time spent by each inspector, and the evaluation of performance is made more difficult.

There is reduced assurance that all of the amounts adjudicated are collected.

Wrecker fees were not being collected in a manner consistent with relevant statutes.

Cause:

A lack of administrative oversight resulted in these conditions. DMV officials informed us that they had intended to collect all licensee fees at the same time, but the necessary system conversions were never performed.

Recommendation: The Department should take action to reduce the backlog of open cases assigned to the Dealers and Repairers Unit, as well as evaluating the procedures in place within the Unit to provide for increased managerial oversight and improvement to the security of files and accountability of inspectors' time and verifying that fees are collected in accordance with State Statutes. (See Recommendation 3.)

Agency Response: "DMV recognizes that there are areas within the Dealers and Repairers Division (D&R) that need improvement. In February, the leadership of the D&R was changed and an attorney is now in the chief position. This individual is performing an in-depth legal analysis of the statutory and regulatory requirements of the division. DMV is in the process of undertaking a major initiative to completely overhaul the D&R complaint process, as well as the day-to-day operations of the division.

Following is a list of the areas and/or initiatives that have been undertaken to date:

The complaint process needed to be better structured to meet the needs of the Department, consumer complainants, licensees, etc. Accordingly, on September 6, 2005 and September 8, 2005, respectively, initial meetings were held with a select group of staff to discuss concerns with the existing complaint process. Issues and problems were identified, and the assistant manager was assigned the task of creating work groups to address these concerns. As a result of those initial meetings, several work groups have been established to create and/or prepare a proposal regarding the manner in which complaints should be handled. (Given current workloads, the deadline for completion of the process is March 30, 2006.) An example of the type of change that will be included in the new handling of complaints process is that complaints will undergo a strict jurisdictional review at the time that they are received. If there is no jurisdiction for the Department to investigate the matter, the consumer complainant will be immediately notified. In addition, all consumer complainants will be sent a letter acknowledging receipt of their complaint when the Department receives it. There will also be a requirement that for every 30-day period that elapses, i.e. a 30-day, 60-day, 90-day, and 120-day letter must be sent to the consumer complainant to apprise him or her of the status of their case.

Additional oversight is also proposed by hiring a supervisor and/or manager to be directly responsible for the handling of complaints.

This new person will be responsible for maintaining the complaint database, which will highlight when a complaint is received and any activity relative to said complaint.

In June 2005, a review of each inspector's open caseload was conducted. As a result of said review, on October 4, 2005, each inspector was sent a memorandum with a copy of their existing cases as of May 19, 2005, requesting that they provide an update regarding the status of their cases. Shortly thereafter, a matrix of outstanding and/or backlogged cases was created, which will be used for getting rid of the backlog with the newly re-assigned inspectors. All inspectors will handle all types of investigations. This requirement is targeted to commence as of January 20, 2006.

The existing filing system within D&R has been evaluated based on the division's existing and future growth needs. Accordingly, a proposal has been prepared for a new system to be ordered. Additionally, in July of 2005, a written directive was sent to all staff indicating that all original files must be maintained at the Department. Any inspector needing a file for field purposes must now make a copy of said file.

Inspectors will be trained further in the areas of report writing, investigation, statutory and regulatory analysis, administrative hearing process and procedures. The jurisdictional issue will be extremely helpful to the Department, because once an inspector is well versed on making a determination regarding whether the Department has jurisdiction or not, it will allow for a significant decrease in the number of outstanding cases. (In addition, as a result of the reorganization, the Hearings Representation Unit has been merged with D & R. A new attorney is targeted to start in the Division on January 27, 2006 and will be charged with assisting with the promulgation of draft regulations. This will assist the Division with ensuring that regulations are adopted in the area of fee schedules, which will ultimately assist the D&R staff with ensuring that the appropriate fees are collected for the violations cited. (Inspectors will be expected to provide input into the fee schedule, as well as be trained in this area once the regulations are adopted.)

In October 2005, a division-wide meeting was held with inspectors wherein they were apprised that new initiatives for increased managerial oversight and accountability were being developed. In particular, a new log form was distributed for comment. The new log requires each inspector to plan his or her workday in advance of undertaking daily inspections.

Finally, a request for Nextel telephones for all inspectors was made in October. (Currently, only sergeants have use of Nextel telephones.) The reason that Nextel telephones were requested is that their free “walkie-talkie” capability will provide the Department with the ability to monitor, on a daily basis, the whereabouts of each inspector. In addition, inspectors will be required to “call into base” (Wethersfield D&R Office) when they arrive and depart from each location where an inspection is being conducted. More importantly, this tool, in conjunction with use of the aforementioned log, definitely builds in a level of accountability and oversight that has not previously existed.”

Equipment and Software Inventories:

Criteria: The State of Connecticut’s Property Control Manual prescribes procedures for the maintenance of equipment and software inventory records, as well as software control policies and procedures. The Manual provides that software should be tracked by the machines that the applications reside in.

Condition: Expenditures for capital improvements totaling \$168,502 were not properly capitalized and included in that report. Items declared to be missing or lost as a result of the completion of the physical inventory were not deleted from the CO-59 inventory report in a timely fashion.

We noted that the Department improperly capitalized the financing costs of a lease purchase, overstating the cost of the asset by \$190,000.

Numerous immaterial errors were also made by failing to add or delete from the inventory balances new purchases or items that had been scrapped/lost, respectively.

Software inventory records did not identify the computers, in which applications were installed, by inventory tag number or serial number.

Effect: Deficiencies in the control over equipment inventory result in a decreased ability to properly safeguard State assets and decrease the accuracy of financial reporting. The lack of adherence to software management policies increases the risk that the presence of unauthorized copies of software would go undetected and

hinders the proper management of the disposal and upgrade of computers.

Cause: We attribute an apparent lack of administrative control over the inventory management process to be the cause of the conditions.

Recommendation: The Department should improve controls over equipment and software inventories by adhering to procedures promulgated by the State Comptroller's Office. (See Recommendation 4.)

Agency Response: "DMV's Administrative Services Division, in conjunction with Fiscal Services, coordinates the disposal of agency surplus equipment within the Wethersfield Building. With approved scrap tickets, the State contracted vendor removes electronic equipment from the site. Non-electronic equipment, with approved scrap tickets, is removed and placed in the dumpster. If the condition of non-electronic equipment is other than scrap, the equipment is posted on the Internet, and if claimed, Administrative Services will coordinate pick up by the claiming agency. If not claimed, DAS will issue a scrap ticket for disposal. This process adheres to procedures promulgated by the State Comptroller's Office and DAS.

In addition, the agency's IST Division has longstanding policies that address the procedures for the receipt of new equipment, deployment of new equipment, the transfer of existing equipment and handling surplus equipment. IST works with Fiscal Services and Administrative Services to coordinate inventory issues and retain the appropriate state inventory tags for the equipment we deploy and transfer, using the appropriate State forms. When equipment maintenance is requested, vendors visit the site and may sometimes replace equipment. IST is not always informed when equipment is replaced and therefore will be instructing agency-operating units to notify IST when a replacement occurs. IST will also be instructing each operating unit that when equipment is replaced by a vendor through a maintenance procedure, the necessary changes must be made on their inventory and obtain the state inventory tag through Fiscal Services.

The IST Division tracks software and hardware using a commercial software product. Since July 1, 2001, the IST Division has been collecting and entering serial and tag numbers for PC workstations, on a point forward basis, into the software as part of our installation and tracking procedures. The IST Division also uses the software to audit PCs. This audit produces a software inventory for each PC. The division also maintains spreadsheets in

the IST central office with information on software distribution throughout the Agency.

IST will continue to work with Fiscal Services and Administrative Services to coordinate and review inventory controls and procedures and improve any deficiencies in such.”

Processing of Photo License Vendor Payments:

- Criteria:* Sound business practice provides that estimated payments should only be made when provided for in the terms of the contracts. Cash management is improved if payments are not made until after goods and services are delivered.
- Condition:* As noted in our prior report, DMV has traditionally made estimated payments at the end of the fiscal year for photo licenses. Credits are then taken against billings in July and August of the following years. During June 2004, approximately \$129,000 was expended in advance of receiving the actual goods.
- Effect:* Prepaying for items without corresponding contractual provisions negatively impacts cash management by reducing the amount available to invest.
- Cause:* DMV made the payments due to the uncertainties that may have presented themselves with the transition to the new Core-CT accounting system.
- Recommendation:* The Department of Motor Vehicles should discontinue the practice of making estimated payments for the processing of drivers licenses. (See Recommendation 5.)
- Agency Response:* “The agency will discontinue estimated payments with the processing of invoices for the driver’s licenses vendor. Previous years’ funding was scheduled from a July through June cycle. DMV will shift the payment cycle to a June through May fiscal year cycle in Fiscal Year 2006.”

Systems Security/Exit Interview Process:

- Criteria:* Access to data processing systems should be promptly terminated for separating employees and hired consultants upon completion of contracted tasks.

- Condition:* We noted 29 instances in which the logon identifications of previous employees or consultants, authorizing access to centralized Department of Information Technology (DOIT) and DMV applications, were still active. We continued to note that DMV had not formalized an exit interview process.
- Effect:* The failure to remove access rights upon the separation of an employee or consultant increases the risk of unauthorized access to the Department's physical assets and data. The lack of an effective exit interview process hampers that Agency's ability to gather State property in a timely fashion.
- Cause:* It appears that a lack of administrative oversight and a delay in reviewing, approving and implementing proposed policies and actions are responsible for this condition.
- Recommendation:* The Department should formalize an exit interview process and establish a process to document the prompt termination of system access rights of employees prior to separating/leaving. (See Recommendation 6.)
- Agency Response:* "DMV's Affirmative Action Office is responsible for the agency's "Exit Interview" process. The unit is currently reviewing and revising those procedures. Meanwhile, The Human Resources Division (HR) has drafted and is implementing a policy pertaining to the return of agency-issued property when an employee is separating from DMV. HR currently notifies the Information Systems Technology Division of all employees who have separated or joined the agency on a monthly basis. A review is underway to determine whether such notices should be made more frequently, especially with regard to separated employees."

Lack of Signatures on Timesheets:

- Criteria:* Proper internal control and Department policy dictates that employees should sign their timesheets as part of attesting to the accuracy of hours worked and leave time charged.
- Condition:* We tested timesheets for three payperiods and noted twelve employees who appeared to consistently not sign their timesheets.

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- Effect:* The absence of the employee's signature on timesheets prevents attestation by the employee and increases the risk of incomplete or inaccurate data being posted by the Department's Payroll Unit.
- Cause:* A lack of administrative oversight appears to have contributed to the conditions. Many of the employees that failed to sign their timesheets were assigned to the field, and not required to return to the office just to complete timesheets.
- Recommendation:* The Department should increase efforts to ensure that timesheets are signed by the employee either prior to or after issuing payment. (See Recommendation 7.)
- Agency Response:* "A directive will be sent to all agency managers and supervisors reminding them of the need to obtain an employee's signature on each bi-weekly timesheet. If an employee is not available to sign the timesheet on the day it is to be submitted to Payroll, a copy of the timesheet will be submitted to Payroll. The original will be retained by the manager/supervisor to be signed by the employee upon his/her return to work. Payroll will maintain a record of missing signatures and will follow up on them during the off week of each bi-weekly payroll processing cycle. The Personnel Administrator and appropriate Bureau Chief will address instances of repeated failures by managers/supervisors to obtain such signatures in a timely fashion."

Administration of Workers' Compensation Cases:

- Criteria:* The State Accounting Manual provides that the first check from the Workers' Compensation third party administrator should be deposited in the Petty Cash Fund in accordance with the prompt deposit provisions of Section 4-32 of the General Statutes. A determination must be made within five days of receipt of the check as to the amounts due the employee and/or the State. Such checks should be received by the Agency for most Workers' Compensation cases that involve lost time.
- The State Accounting Manual prescribes the use of a receipts journal to assist in providing internal control over amounts received.
- Condition:* The Department does not maintain a check receipts log for Workers' Compensation checks.

In reviewing Workers' Compensation leave charges, we noted three employees with lost time for which the Department did not pursue a first check from the Workers' Compensation third party administrator.

Effect: The lack of the Department's pursuit of first checks represents a loss of reimbursement to the State.

Cause: It appears that the condition is due to a lack of administrative oversight.

Recommendation: The Department should establish procedures that ensure the pursuit of first checks from the Workers' Compensation third party administrator. In addition, controls over the receipt of such amounts should be enhanced by establishing a cash receipts log for Workers' Compensation checks. (See Recommendation 8.)

Agency Response: "In that the Payroll Unit is now part of the Human Resources Division, steps are being taken to document the proper processes and procedures, as well as the acceptable timetables, with respect to determining and pursuing first checks from the Workers' Compensation Third Party Administrator (TPA). Once these steps have been agreed upon and implemented, the Audit Services Unit will be asked to periodically review this process to ensure that procedures and timetables are being adhered to.

A receipt log is being established in the Payroll Unit to track the date of receipt of reimbursement checks received from the TPA as well as the date they are delivered to Fiscal Services for deposit. It has been reiterated to the Payroll Unit staff that checks received from the TPA are to be delivered to the Fiscal Office for deposit on the day they are received, or if for some unforeseen reason they cannot, the next business day at the latest. The Petty Cash Ledger will serve as an additional receipt log for such reimbursements.

Audit Services will compare the dates on these two respective logs during their periodic reviews to ensure that they agree and reflect timely deposits of checks received.

Finally, the requirement that a determination of the breakdown of any reimbursement check (how much goes to the employee and how much goes to the DMV) must be made within five days of its receipt was reviewed with Payroll staff. This will be addressed in the procedures mentioned previously and will also be reviewed by Audit Services as part of their examination of the agency's Workers' Compensation activities."

Data Processing Disaster Recovery Plan:

- Criteria:* Sound business practices include provisions that organizations have current disaster recovery plans in place to enable critical operations to resume activity within a reasonable period after a disaster.
- Condition:* The Department has business contingency procedures in place in the event of a calamity. However, omitted from those procedures was a current disaster recovery plan for data processing applications. DMV does not have arrangements in place to allow for hot site/cold site utilization of its midrange applications housed within DMV facilities. With respect to DMV’s major applications housed within the Department of Information Technology (DOIT), as noted in our prior audit, DMV had yet to successfully enter into a formal agreement with DOIT specifying the responsibilities of each agency with regard to disaster recovery.
- Effect:* The lack of a comprehensive disaster recovery plan may lead to increased costs to the State due to service interruptions or loss of data from an actual disaster.
- Cause:* DMV staff appeared to be aware of the need for a disaster recovery plan, but the task was not a high priority because the major applications were regarded to be the responsibility of DOIT.
- Recommendation:* The Department of Motor Vehicles should expand efforts to create a comprehensive disaster recovery plan. A formal agreement should be entered into with the Department of Information Technology (DOIT) clarifying the division of responsibilities between DOIT and DMV. (See Recommendation 9.)
- Agency Response:* “DMV has been working with DOIT over the past year to establish procedures and define responsibilities for a Disaster Recovery Plan. The agencies participated in a disaster recovery exercise in November 2005 and will participate in another disaster recovery exercise in February. This is part of a twice-annual process to review Agency and DOIT disaster recovery plans and procedures that have been implemented. DMV will continue to make every effort to urge DOIT to work with it in preparing detailed Disaster Recovery Plans.”

Implementation of Programs and Regulations:

Criteria: Our prior audit disclosed three instances in which statutory provisions specified that regulations were to be established to carry out the legislated tasks, yet regulations were not in place. Our current review indicated that the same three issues had yet to be addressed.

In addition, we examined more recent legislation and found that Section 28 of Public Act 02-70 required regulations to be put in place to address complaints against dealers and repairers made in accordance with Section 14-63.

Condition: Regulations required by Public Act 02-70 and earlier Acts were not yet implemented.

As noted elsewhere in this report, our examination of the Substance Abuse Treatment Program and the Operator Retraining Program noted deficiencies in the implementation or creation of the associated Regulations.

Effect: Inconsistent or non-existent provisions in Statutes and Regulations reduce the assurance that the Department is clearly operating within the context of the applicable legislation.

Cause: These conditions were due in part to staffing shortages in the Legal Services Division of the Department. In addition, there was an apparent lack of administrative oversight over some of these areas.

Recommendation: The Department should increase efforts to ensure that programs and corresponding Regulations are in place. (See Recommendation 10.)

Agency Response: “With respect to P.A. 02-70, which amended Section 14-63, Complaints by Customers Against Dealers and Repairers, the Department already has regulations under the old version of the statute. However, the Auditors’ point is well taken, since the regulations should be expanded and updated to reflect the new statutory terms, which were proposed by DMV during the 2002 session in order to help streamline this part of its operation. The Legal Services Unit is working with the Dealers and Repairers Division in this regard.”

Monitoring of Phone Usage:

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<i>Criteria:</i>	The use of State telephones should be limited to official State business in order to maximize the availability of phone lines and minimize the amount of time employees spend on non-State business.
<i>Condition:</i>	The Department has a process in place to monitor phone usage. Efforts are concentrated on reviewing long distance charges. Our examination of local phone usage revealed that a few employees had patterns of making frequent or lengthy calls without an apparent business need.
<i>Effect:</i>	Despite the fact that there were no long-distance charges for most of the local calls, the utilization of DMV resources in the form of personnel and available telephone lines may not be as efficient as desired.
<i>Cause:</i>	The Department had previously focused on reviewing long distance charges due to the costs of the phone bills.
<i>Recommendation:</i>	The Department should occasionally expand its monitoring of telephone usage to include local calling in an effort to deter non-business use. (See Recommendation 11.)
<i>Agency Response:</i>	“As indicated, long-distance telephone usage is closely monitored by the agency, as are instances of potential abuse of telephones by staff. DMV will examine the feasibility of extending its monitoring of telephone usage to include local calls.”

Processing of Branch Documents:

<i>Criteria:</i>	Documents supporting various transactions taking place at the branch offices are batched and sent to Wethersfield for microfilming and data entry into various databases. This process should be timely in order to maintain current registration and license databases.
<i>Condition:</i>	At the time of our review in July 2005, we noted that some branches had not yet submitted all of the documents from the month of May, as well as most or all of the June documents. A detailed tracking process was in place for these submissions, but the results were apparently not shared with management on a regular basis.

Effect: The license and registration databases used by law enforcement are not as up-to-date as would normally be expected.

Cause: We were informed that the backlogs were caused by the implementation of new reconciliation procedures in the branches stemming from the recent license frauds.

Recommendation: The Department of Motor Vehicles should examine the process of tracking the receipt of document batches from the branch offices in order to address apparent delays in the system. (See Recommendation 12.)

Agency Response: “Branch Operations Administration is kept apprised of bookkeeping dates currently being worked on in the branch offices. In addition, a “Bookkeeping Team” has been created that visits various branch offices in the State to assist with any backlogs to ensure that documents are forwarded to the Wethersfield facility for data entry purposes in a timely manner.

DMV will implement within the Administrative Services Division a new procedure to address delays in the receipt of branch documents. Branch offices will be notified by email when registrations and operator license batch documents have not been received timely in Wethersfield for microfilming and data entry, and immediate submission will be requested. The Bureau Chief of Branch Operations and the Audit Services Unit will also be on copy of this notice. This tracking mechanism will help ensure

timely receipt of branch documents and reduce the time it takes to enter the data into the system.”

Complaint Review Process:

Criteria: As a State agency that regularly receives complaints from citizens, DMV should have a process in place to provide assurance that the complaints are independently investigated and accurately reported to the Commissioner in order to provide a response to the constituents.

The Department has available to it the resources of the Internal Audit Unit and an Investigatory Unit to handle complaints of an internal control or criminal nature, respectively.

Condition: The Department maintains a log of the hundreds of complaints made to the DMV each year. If the complaint appears to be under

the jurisdiction of the Department, the Commissioner's Office assigns it to the Bureau Chief responsible for the particular area. The status of the complaint is tracked until the Commissioner receives a response. While we did not find any evidence that complaints were not being properly investigated, we do realize the potential for a biased review when the responsible Bureau Chiefs are asked to report on something within their own span of authority.

Effect: DMV staff may not always be willing to admit to deficiencies discovered during the review of a complaint, especially if that condition can be regarded as reflecting poorly on the Bureau Chief.

Cause: DMV established this process to handle the complaints in the most expedient manner. The need for an independent review appeared to have not been a consideration at that time.

Recommendation: The Department of Motor Vehicles should establish a process to provide for the independent review of staff responses to those citizen complaints that appear to be of a serious nature or suggest criminal activity. (See Recommendation 13.)

Agency Response: "DMV has created a new form (B340) "Improper Activities Report" for citizens and employees to use to report any suspicious activity they may be aware of to ensure the integrity of DMV procedures. Forms are available in all branch office and agency work locations.

In addition, DMV has assigned one person to review and track the critical citizen correspondence, as well as any information surfacing through employee suggestions, for indications of serious operating issues or allegations of criminal activity. This person receives the citizen correspondence through either the U.S. mail, referrals from other agencies or direct submission to the DMV. Each correspondence is first screened for content and any urgent matters are directly referred to the Commissioner. Each letter is then routed to the appropriate person for review and reply. In certain circumstances replies are prepared for the Commissioner. Each reply, whether for the Commissioner or given to the citizen directly by the staff member, is reviewed for content and whether any action is promised. The same occurs with employee suggestions. Each month a report on correspondence is prepared for the agency's Executive Team. In addition, a separate report is prepared on action promised and whether such action has been taken. This report is submitted to the agency's Chief of Staff. The

Chief of Staff then reviews responses and open items as a "quality control" function and implements any corrective action(s) necessary."

Insurance Compliance Process:

Criteria: Section 38a-343a of the General Statutes provides that each insurance company that issues passenger vehicle liability insurance shall notify the DMV Commissioner monthly of policy cancellations, and that the Commissioner shall review and analyze the data submitted by insurance companies for the purpose of determining whether an owner has failed to continuously maintain insurance coverage. Section 38a-2 of the General Statutes provides that any person or corporation violating any provision of Title 38a for which no other penalty is provided shall be fined not more than \$7,500.

Section 14-12g of the General Statutes provides that when a private passenger motor vehicle liability insurance policy has been cancelled and the Commissioner of Motor Vehicles determines that the registered owner has not met the mandatory security requirements, the Commissioner shall issue to such owner a notice of registration cancellation. The laws permit the cancellation of the registration of uninsured vehicles, and Section 14-12h of the General Statutes provides for the impoundment of such vehicles and forfeiture to the State after 45 days.

Condition: The Department of Motor Vehicles has a process in place to detect uninsured vehicles by comparing the records of motorists that are added or deleted from the databases of each insurer. We were informed by DMV staff that if a registrant is uninsured in one month and insured in the next, no warning letter is issued. The process currently in place requires that the vehicle be identified as uninsured for two consecutive months before a warning letter is issued. We sampled 20 transactions from the insurance compliance system and found that 17 of those situations involved warning letters that were not issued in a timely fashion. While we found the issuance of registration cancellation letters to be timely after the warning letters, periods of up to eight months transpired between DMV's receipt of insurance cancellation notices and the issuance of warning letters.

Effect: The processes in place do not provide strict compliance with Section 14-12g through 14-12h of the General Statutes. Registrants can manipulate the process by repetitively canceling

insurance for periods not exceeding one month. Delays of up to eight months in sending out warning letters create unnecessary administrative burdens on both DMV and the general public. The forfeiture of any impounded vehicles has not taken place.

Cause: This condition was caused in part by staffing issues and the desire of DMV to focus on the motorists that are currently uninsured, as opposed to those who have insurance in place but may have had a lapse in coverage. In addition, we were informed that while insurers were not always consistent in sending the required data to DMV, we were unable to obtain evidence that insurers have been considered to be subject to the applicable fine.

Recommendation: The Department of Motor Vehicles should attempt to strengthen enforcement of uninsured motor vehicles by properly assessing penalties for any periods in which a vehicle is uninsured, as well as investigating the process for issuing fines to those insurers that fail to report in a timely fashion. The Department also should continue efforts to repeal the provision of Section 14-12h of the General Statutes that calls for the forfeiture to the State of uninsured vehicles impounded for more than 45 days. (See Recommendation 14.)

Agency Response: “DMV has discussed with the legislature on numerous occasions the Auditors’ recommendation to repeal the parts of the Insurance Compliance program statutes that pertain to the impoundment and forfeiture sale of vehicles seized by the police, which are on DMV’s “hot list” of registrations which are cancelled or suspended for no insurance. In fact, the legislature has repealed, under P.A. 04-199, Section 41, effective on passage on June 3, 2004, Sections 14-12m and 14-12n, concerning forfeiture of impounded motor vehicles, sale proceedings and the uninsured motor vehicle forfeiture revolving account.

The provision that remains in the General Statutes is Section 14-12h. Neither the Transportation nor Insurance Committees have indicated a willingness to repeal these provisions. The legislature apparently believes that the police should continue to have this authority, should they wish to use it. In DMV’s experience, there are extremely few cases in which this authority has been exercised. It must be kept in mind that the police have the authority to tow or remove from the highway any vehicle with a suspended registration (or no registration) regardless of the reason for suspension. It may be that the police are not distinguishing among all tows for “unregistered” the cases in which the registration has

been cancelled or suspended by the DMV Insurance Compliance Unit.

With respect to insurance related tows, DMV does receive a list of plates that have been confiscated by law enforcement for vehicles that were operating while under suspension/cancellations for insurance compliance violations.

With respect to the assessment of penalties for any periods in which a vehicle is uninsured, this process was brought in-house in 2003 and at that time DMV developed an additional file called the "lapsed file." The lapsed file is used for those cases where a cancellation and a subsequent pickup of insurance are identified prior to the generation of a warning letter. Prior to this date, there was no way for the Agency to recognize when the aforementioned scenario had occurred. Since the process was brought in house in 2003, the unit has been inundated with letters and has only been responding to the warning file. This was because these are the cases for which the agency has no evidence that insurance coverage has ever been resumed. To date we have not taken action on the lapsed file because we have been inundated with warning letters. However, with recent legislative changes that have simplified the administration of this program, the Insurance Compliance Unit is now processing current month warning letters. As a result, the unit is now beginning to analyze the data collected in the lapsed file and will begin processing those cases in the near future.

The Department is currently working with the Insurance Industry Committee on Motor Vehicle Administration to develop a process where insurance can be verified through a real-time system in addition to the current system which only gives the Insurance Industry a one-week window each month to submit insurance cancellation. Once this is developed, DMV will be able to analyze any data collected in the real-time system, comparing it to the mandated process and issue any applicable fines."

Contract for Digital Message Boards in Branch Offices:

Criteria:

The Department has entered into a no-cost contract with a provider of digital display boards to provide informational services to customers of various branches. Sound business practice suggests that arrangements for private enterprises to utilize public facilities for commercial purposes should be entered into on a competitive

basis, in the anticipation that revenue could be generated from the process.

Condition: A review of the contract with the digital display provider indicated that the contract was entered into in 1993 and contains a provision that the provider will be the exclusive system in DMV branches. Said contract also includes a provision for automatic renewal every five years. Utilizing such an arrangement appears to preclude the opportunity to competitively bid for such service with the hope that the State can be compensated for permitting the service in its buildings. Since the contract terms have not been amended since 1994, any legislative changes regarding contract reform provisions have not been incorporated into the terms.

Effect: Opportunities for a competitive selection process appear to have been missed.

Cause: This contract appeared to get little scrutiny because its terms provide for no cost to the State.

Recommendation: The Department of Motor Vehicles should perform an evaluation of the digital display contract with the goals of competitively bidding such service. (See Recommendation 15.)

Agency Response: “DMV’s Purchasing Unit will contact the Department of Administrative Services’ Procurement Division and proceed with a Request for Proposal.”

Administration of Operator Retraining Program

Criteria: Section 14-111g of the General Statutes established an Operator Retraining Program, the general purpose of which is the remedial training of operators after they are convicted of a certain number of moving violations. Said Section provides that the “Commissioner may deduct and retain from the fees collected ...an amount not to exceed ten dollars”. The Department has contracted with two vendors to administer the Program. The DMV Commissioner is authorized to adopt Regulations to implement the Program.

Public-sector procurement practices generally call for an open and competitive selection process when contracting for goods and services.

Sound business practice calls for establishing formal written agreements when entering into contracts and reviewing the work of contractors to confirm that the intended goal of the Program is attained.

Condition: An attempt to evaluate the selection process used by DMV revealed that there is little available documentation to indicate how the selection process was carried out. DMV has established a process of collecting the ten dollar fee from the schools, rather than collecting the entire fee and remitting the difference to the schools. Regulations were promulgated in October 2002, but were not implemented. Written contracts with the agencies were never entered into. At the time of our review, DMV was not able to evidence any Program oversight except for collecting the fee and notifying operators of their need to participate in the Program.

Effect: These conditions have combined to create a Program for which there is little public accountability,

Cause: These conditions were caused primarily by a lack of administrative control.

Recommendation: The Department of Motor Vehicles should take steps to improve the administration of the Operator Retraining Program with the goal of enhancing accountability over the provider selection process and improving Program oversight. (See Recommendation 16.)

Agency Response: “The Department has addressed this issue on two fronts: the issuance of an RFP seeking qualified vendors to provide remedial motor vehicle operator training; and the formation of a Driver Retraining Unit to monitor and enforce the program and governing State Statutes and related Regulations.

In early 2005, the Department of Motor Vehicles issued a Request for Proposal and Application for vendors interested in participating in the new Operators Retraining Program. Responses were returned in July of 2005 and an evaluation committee was formed to review proposals received in response. Presently the Department is in the final stages of selecting vendors to be included in the Operators Retraining Program. Once selected, each company will be required to sign a contract with the state, allowing greater accountability and program oversight.

Also in 2005, DMV established a Driver Retraining Unit to monitor the current programs and provide program accountability

consistent with applicable Statutes and Regulations. In addition, the Unit is in the process of developing program protocols including on-sight inspections and program evaluations.”

Administration of Substance Abuse Treatment Program:

Criteria: Section 14-227f of the General Statutes established an alcohol and drug addiction treatment program for offenders convicted of operating under the influence. Said Program requires intensive treatment and continuing aftercare. Program fees are to be paid by the participants. Regulations are to be adopted by the Commissioner.

Condition: Similar to the Operator Retraining Program discussed above, the providers for this Program were selected some time ago, and continue to provide services without the benefit of formal contracts. Despite the solicitation of RFPs in 2003, the Department had not taken the opportunity to reduce to writing what had been in place since 1995.

The DMV was unable to provide independent reliable Program statistics, except to indicate that over the last six years, approximately 15,000 drivers had received notices requiring completion of the Program. Evidence of evaluation of the results of the Program was not available.

DMV Regulations had not been updated in accordance with Public Act 03-265 to indicate that such Program is required of operators convicted of a first offense, rather than a second offense as previously required.

Effect: There is reduced assurance that the Program is operating effectively and in accordance with prescribed Statutes.

Cause: An apparent lack of administrative oversight contributed to this condition.

Recommendation: The Department of Motor Vehicles should take steps to improve the administration of the Substance Abuse Treatment Program with the goal of enhancing accountability over the provider selection process and improving Program oversight. (See Recommendation 17.)

Agency Response: “Monthly statistics have been maintained, but not cumulative statistics. Providers’ statistics were made available indicating the number of enrollees since the program became effective, persons completing the various phases of the program, and others still participating within the various phases of the program. Presently, statistics are manually developed and maintained on the number of notices mailed. This effort will be expanded to include the number of operators whose names appear on such lists but to whom notices are not mailed because the driving histories indicate previous program completion. A request is being submitted to the Information Systems Technology Division for assistance in developing a report utilizing information in the Operator Control System to monitor the recidivism rate.

Although the authorizing legislation does not require a bid process, the Department will solicit and evaluate proposals from vendors to conduct the program.”

Level of Staffing Within the Department’s Legal Services Division:

Criteria: In order to help perform the Department’s legislative, regulatory and adjudicatory functions, the Department has established a Legal Services Division. The Division’s responsibilities include monitoring State and Federal legislative mandates, writing proposals for new or amended State laws and conducting the Regulation-making process, promulgating statutory and regulatory changes to DMV staff, assisting the Office of the Attorney General in court proceedings regarding motor vehicle laws, receiving Freedom of Information requests, responding to inquiries from the public and law enforcement agencies concerning motor vehicle laws, overseeing the sale of DMV information to private firms, and assisting in conducting administrative hearings for various divisions.

Reliance on one individual makes it difficult to provide for a plan of succession in the event the individual leaves the Department.

Condition: During the course of this engagement, we noted that the resources of the Legal Services Division were essentially limited to one attorney functioning as the Director of Legal Services. It was apparent, given the number of tasks and initiatives assigned to the Division, that staffing issues were impacting productivity and

preventing the Department from pursuing all of the initiatives that were on its agenda. At the same time, for example, we continued to note the need for the Department to establish and update Regulations and pursue the modernization of many of its Statutes.

Effect: Regulations and corresponding Statutes continued in some cases to be in conflict with each other or non-existent. Legal advice to other divisions within DMV was not always as readily available as it should have been. Efforts to pass legislation sufficiently revamping the licensure process and addressing all of the DMV's concerns were not fully successful.

Cause: The demands placed on the Legal Services Division seemed to far exceed the capabilities of one full-time attorney. While DMV had assigned other attorneys to the Division on a temporary basis, a permanent position would serve to provide continuity in the event the Director leaves the Department.

Recommendation: The Department of Motor Vehicles should evaluate the staffing needs within the Legal Services Division and attempt to allocate the resources necessary to provide the optimal level of service required. (See Recommendation 18.)

Agency Response: "As part of the department wide reorganization in August 2005, an additional attorney was added to the unit to handle agency regulations as well as to oversee the Per Se/Hearings Unit. This manager has extensive state and DMV experience. In addition, DMV recently received permission to refill a third managerial/attorney position in this unit. Recruitment for this position is underway."

Administration of the Internal Audit Unit:

Criteria: Professional internal auditing standards are recommended guidelines an internal audit organization can choose to adhere to for purposes of achieving quality and consistency in the performance of their work. These guidelines address the concepts of organizational independence, objectivity, proficiency, due professional care, continuing education, and the planning, performance, reporting and follow-up of engagements. In order to promote compliance with such standards, they should be in written form and formally adopted by the organization.

As a result of recent high-profile investigations into allegations of licensing fraud, as well as the routine performance of some of the Unit's assignments, the DMV Internal Audit Unit may be called upon to perform examinations which could result in criminal charges being filed against individuals. Adherence to an established set of standards, including the maintenance of employees' skills through continuing education, can serve to add credibility to their work in the event that testimony is required.

In order to effectively assess the progress made by the Department in response to audit recommendations, a timely review should be performed to confirm that management has taken the proper action.

Condition: There was no indication that the DMV Internal Audit Unit had adopted a set of professional standards to guide it in the performance of its duties.

The Internal Audit Unit does not have a process in place to follow-up on audit recommendations in a timely fashion. Instead, follow-up reviews are normally left for the next time that area is scheduled for audit. Management responses were sometimes received months after the issuance of reports.

Effect: The lack of adherence to an established set of standards impedes the ability of the Unit to achieve the highest level of consistency and effectiveness, and increase the risk of challenges to court testimony.

The failure to confirm the timely implementation of corrective actions increases the risk that conditions noted in the findings will continue unnecessarily.

Cause: A lack of administrative oversight contributed to these conditions.

Recommendation: The Department of Motor Vehicles should consider adopting established standards for the Internal Audit Unit and implement procedures for the prompt follow-up of audit recommendations. (See Recommendation 19.)

Agency Response: "The DMV Internal Audit Unit currently uses the "Government Auditing Standards" issued by the U.S. General Accounting Office, Comptroller General of the United States (Yellow Book) as the basis for its professional audit standards and as its guide in the performance of its duties. The Unit also plans to develop and document its own set of performance standards and procedures.

With regard to the follow-up of audit recommendations, DMV will implement a procedure in which the Audit Unit's current audit report-tracking spreadsheet will be reviewed at the end of each month. All past due respondents will be contacted with a reminder correspondence to indicate a "response required by" due date. Upon the reported resolution of the recommendations, a follow up review will be scheduled within six months of the response-received date. All staff will be reminded of the need to respond timely to the Internal Audit Unit's findings and recommendations."

Other Matters:

At the request of the Governor, the Auditors of Public Accounts performed an examination of the internal controls over the licensing and credentialing process in place at the Department of Motor Vehicles. This report was prepared amid an extensive investigation into allegations of fraud within the licensing process, and included a number of recommendations made to improve the integrity of the processes. Recommendations were made with regard to the hiring and training of employees, improving controls in the data processing environment, maintaining control over the materials used to produce credentials, taking steps to better assure the identity and criminal history of applicants, resolving conflicts between certain Statutes and Regulations, and utilizing the production of revenue accountability reports to provide increased assurance over the integrity of the licensing database.

RECOMMENDATIONS

Our previous audit report contained 21 recommendations pertaining to Agency operations. There has been satisfactory resolution of eight of those recommendations. Follow-up on one additional recommendation has been covered as part of a performance audit of the State's enforcement of laws related to overweight vehicles. The 12 remaining recommendations have been restated to reflect current conditions. Seven additional recommendations have been formulated as a result of our current review. The following is a summary of the recommendations and the actions taken thereon.

Status of Prior Audit Recommendations:

- The Department should administer the Diesel Commercial Vehicle Inspection Program in accordance with Section 14-164i of the General Statutes. This finding has been modified to reflect current conditions.
- Controls over equipment and software inventories should be improved. This finding has been modified to reflect current conditions.
- The Department should improve its administration of State vehicles. This recommendation has been substantially complied with and is not being repeated.
- The Department should establish an exit interview process to document the prompt recovery of Department resources, and verification of the termination of system access rights of employees and consultants prior to leaving. This recommendation has been modified to reflect current conditions.
- The Department should prepare accountability reports for the primary sources of revenue. This recommendation is being repeated.
- The Department should comply with Sections 4-32 and 4-33a of the General Statutes by ensuring the prompt deposit of all revenue, processing of revenue adjustments and distribution of loss reports are done in a timely manner. This recommendation has been resolved.
- Procedures should be enhanced to provide for the accountability of all pre-numbered ticket forms provided by the Department. This recommendation has been resolved.
- The Department should attempt to optimize the use of personnel resources by ensuring employees' responsibilities are commensurate with the job specifications created by the Department of Administrative Services. Recent reorganizations of the Department prevented us from adequately assessing the progress on this issue. Subsequent audits will determine if the issue is resolved.

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- The Department should increase efforts to ensure that timesheets are signed by the employee prior to issuing payment, and that annual evaluations are performed and documented. This recommendation is being repeated.
- The Department should take steps to improve the accuracy of payments to separating employees. This recommendation has been resolved
- The Department should improve administration of Workers' Compensation claims. This recommendation is being repeated.
- The Department should abide by the Telecommuting Policy issued by the Department of Administrative Services and amend its work-at-home policy to reflect the requirements of Section 5-248i of the General Statutes. This issue has been adequately resolved.
- The Department of Motor Vehicles should expand efforts to create a comprehensive disaster recovery plan. A formal agreement should be entered into with DOIT clarifying the division of responsibilities between DOIT and DMV. This recommendation is being repeated.
- The Department should consider, as part of its procedures, obtaining a copy of the bill of sale as audit evidence to support transactions involving sales/use tax calculations. This recommendation has been adequately resolved.
- The Department of Motor Vehicles should pursue its budget proposal to eliminate the racing inspections required by Section 14-164a of the General Statutes or request a fee revision that more closely matches the corresponding costs of providing the service. This issue has been resolved by a legislative change
- The Department of Motor Vehicles should attempt to strengthen enforcement of uninsured motor vehicles by properly assessing penalties for any periods in which a vehicle is uninsured. This recommendation has been modified to reflect current conditions.
- The Department of Motor Vehicles should institute procedures to monitor compliance with promulgated purchasing requirements, as well as making use of available licensing data to prevent the need for estimated payments to the vendor providing driver licenses. This recommendation has been revised to reflect current conditions.
- The Department should take action to reduce the backlog of open cases assigned to the Detective and the Dealers and Repairers Unit, as well as instituting procedures calling for the timely resolution of complaints and production of reports. A chronological log should be kept for each case. This recommendation has been modified to reflect current conditions.

- The DMV should evaluate the potential benefits of the police authority granted by Section 14-8 of the General Statutes and consider either providing the requisite training to permit certification by the Police Officer Standards and Training Council or revising the Statute. This recommendation has been resolved.
- The DMV should re-establish the annual safety inspections of fire apparatus and ensure that State regulations are in place where required. This recommendation is modified to reflect current conditions.
- Procedures designed to achieve the intent of the impoundment provisions of Section 14-12g through 14-12n of the General Statutes should be implemented, or efforts should be made to repeal those Sections. This Recommendation has been repeated.

Current Audit Recommendations:

- 1. The Department of Motor Vehicles should continue efforts to implement testing procedures and enforcement provisions for the Diesel Commercial Vehicle Inspection Program in accordance with the provisions of Section 14-164i of the General Statutes or seek amendments to the relevant legislation to clarify the Department's responsibilities.**

Comment:

We continued to note variances between the practices in place within DMV and the relevant legislation.

- 2. Department should continue its efforts to pursue system upgrades that will enable the preparation of accountability reports for the primary sources of revenue.**

Comment:

The Department continues to be unable to produce accountability reports for its major sources of revenue. Such reports not only provide validation of the total revenue received, but provide further confidence that records created in the databases are properly authorized.

- 3. The Department should take action to reduce the backlog of open cases assigned to the Dealers and Repairers Unit, as well as evaluating the procedures in place within the Unit to provide for increased managerial oversight and improvement to the security of files and accountability of inspectors' time and verifying that fees are collected in accordance with State Statutes.**

Comment:

The Department's case management system indicated that a large number of complaints were over 180 days old. Efforts of the investigators could not be tracked to specific cases.

4. **The Department should improve controls over equipment and software inventories by adhering to procedures promulgated by the State Comptroller's Office.**

Comment:

We continued to note deficiencies with the reporting of equipment inventory. Software was not recorded by the computer to which it was installed.

5. **The Department of Motor Vehicles should discontinue the practice of making estimated payments for the processing of drivers licenses.**

Comment:

Estimated payments were made at year-end without contractual provisions.

6. **The Department should formalize an exit interview process and establish a process to document the prompt termination of system access rights of employees prior to separating/leaving.**

Comment:

Employees' logon IDs were found to exist months after the dates of termination. The return of DMV property from separating employees was not always documented.

7. **The Department should increase efforts to ensure that timesheets are signed by the employee either prior to or after issuing payment.**

Comment:

We continued to note certain branch employees that consistently failed to sign their timesheets, even after the fact.

8. **The Department should establish procedures that ensure the pursuit of first checks from the Workers' Compensation third party administrator. In addition, controls over the receipt of such amounts should be enhanced by establishing a cash receipts log for Workers' Compensation checks.**

Comment:

First checks from Workers Compensation cases were not requested in a timely fashion, and the receipt of such checks was not properly recorded.

- 9. The Department of Motor Vehicles should expand efforts to create a comprehensive disaster recovery plan. A formal agreement should be entered into with the Department of Information Technology (DOIT) clarifying the division of responsibilities between DOIT and DMV.**

Comment:

DMV and the Department of Information Technology had not documented each agency's responsibilities in the area of disaster planning.

- 10. The Department should increase efforts to ensure that Statutes and corresponding Regulations for its programs are in place.**

Comment:

Regulations were not in place for some of DMV's statutory mandates.

- 11. The Department should occasionally expand its monitoring of telephone usage to include local calling in an effort to deter non-business use.**

Comment:

While long-distance telephone usage was closely monitored, local calling was not monitored.

- 12. The Department of Motor Vehicles should examine the process of tracking the receipt of document batches from the branch offices in order to address apparent delays in the system.**

Comment:

We noted delays of up to two months from the time transactions were processed to the time it was entered into the databases.

- 13. The Department of Motor Vehicles should establish a process to provide for the independent review of staff responses to those citizen complaints that appear to be of a serious nature or suggest criminal activity.**

Comment:

Independent reviews of complaints add to the credibility of the responses received from staff.

- 14. The Department of Motor Vehicles should attempt to strengthen enforcement of uninsured motor vehicles by properly assessing penalties for any periods in which a vehicle is uninsured, as well as investigating the process for issuing fines to those insurers that fail to report in a timely fashion. The Department also should continue efforts to repeal the provision of Section 14-12h of the General Statutes that calls for the forfeiture to the State of uninsured vehicles impounded for more than 45 days.**

Comment:

The issuance of fines and forfeiture of vehicles was not being done in conformance with State Statutes.

- 15. The Department of Motor Vehicles should perform an evaluation of the digital display contract with the goals of competitively bidding such service.**

Comment:

The service was being provided under an agreement that had been in place for ten years without being competitively bid.

- 16. The Department of Motor Vehicles should take steps to improve the administration of the Operator Retraining Program with the goal of enhancing accountability over the provider selection process and improving Program oversight.**

Comment:

The contractors operating the Program were selected many years ago without the benefit of written contracts or subsequent competitive bidding.

- 17. The Department of Motor Vehicles should take steps to improve the administration of the Substance Abuse Treatment Program with the goal of enhancing accountability over the provider selection process and improving Program oversight.**

Comment:

The Department was unable to provide independent statistics indicating the level of success attained by the Program. A competitive selection process had not been entered into for many years.

- 18. The Department of Motor Vehicles should evaluate the staffing needs within the Legal Services Division and attempt to allocate the resources necessary to provide the optimal level of service required.**

Comment:

The workload in the unit appeared to be beyond the capabilities of the one attorney assigned to it.

- 19. The Department of Motor Vehicles should consider adopting established standards for the Internal Audit Unit and implement procedures for the prompt follow-up of audit recommendations.**

Comment:

The adoption of standards and the prompt follow-up on findings will serve to improve the consistency of the Department's operations.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Motor Vehicles for the fiscal years ended June 30, 2003 and 2004. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Motor Vehicles for the fiscal years ended June 30, 2003 and 2004 are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Motor Vehicles complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Motor Vehicles is the responsibility of the Department of Motor Vehicles' management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2003 and 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Motor Vehicles is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Motor Vehicles' financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following finding represents a reportable condition: the inability of the Agency to produce revenue accountability reports.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that the reportable condition described above is not a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the officials and staff of the Department of Motor Vehicles during this examination.

Kenneth Post
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts