

PERFORMANCE AUDIT
OF THE
DRIVER LICENSING AND VEHICLE REGISTRATION PROCESSES

BUREAU OF BRANCH OFFICE SERVICES AND
BUREAU OF DRIVER AND VEHICLE RECORDS
DEPARTMENT OF STATE

January 2004

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Driver Licensing and Vehicle Registration
Processes
Bureau of Branch Office Services and
Bureau of Driver and Vehicle Records
Department of State

Report Number:
23-250-02

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January 2004

The Department of State's responsibilities include administering and enforcing sections of the Michigan Vehicle Code (Sections 257.1 - 257.923 of the Michigan Compiled Laws) pertaining to the registration of vehicles and the licensure of vehicles and operators. The Department's mission related to its vehicle registration and vehicle and operator licensure processes is to provide accurate records and timely services.

Audit Objective:

To assess the effectiveness and efficiency of the Bureau of Branch Office Services' (BBOS's) and the Bureau of Driver and Vehicle Records' (BDVR's) procedures for processing driver license and vehicle registration applications.

Audit Conclusion:

BBOS's and BDVR's procedures for processing driver license and vehicle registration applications were generally effective and efficient. However, we noted reportable conditions related to evaluation of BBOS effectiveness, system access controls, and recording of court abstracts (Findings 1 through 3).

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Audit Objective:

To assess the effectiveness of BBOS's and BDVR's internal control over driver licensing and vehicle registration-related revenues.

Audit Conclusion:

BBOS's and BDVR's internal control over driver licensing and vehicle registration-related revenues was generally effective. However, we noted a reportable condition related to branch office deposits (Finding 4).

Noteworthy Accomplishments:

The Department implemented a new cash management computer-based system that provides branch offices with cashier and revenue-recording functions. This new server-based system allows branch offices to perform multiple transactions for customers and automates many of its revenue-collecting functions. The new cash management system replaces the paper-based manual system that was used previously in conjunction with intelligent terminals.

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Audit Objective:

To assess the effectiveness of the Department's commercial driver license (CDL) program to ensure that only qualified drivers obtain and possess a CDL.

Audit Conclusion:

The Department's CDL program was generally effective in ensuring that only qualified drivers obtain and possess a CDL. However, we noted a reportable condition related to CDL certification (Finding 5).

Noteworthy Accomplishments:

The Department noted that it had established a connection between its operations and its CDL record partners at the National Driver Register and the Commercial Driver License Information System. This connectivity enables the Department to check these CDL national driver license databases to verify driver identity and eligibility, improve customer service, and promote traffic safety.

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Agency Response:

Our audit report contains 5 findings and 7 corresponding recommendations. The Department's preliminary response indicated that it agreed with 3 findings, partially agreed with 1 finding, and disagreed with 1 finding and that it has taken or will take steps to comply with all of the recommendations.

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



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AUDITOR GENERAL

January 13, 2004

The Honorable Terri Lynn Land
Secretary of State
Treasury Building
Lansing, Michigan

Dear Secretary Land:

This is our report on the performance audit of the Driver Licensing and Vehicle Registration Processes, Bureau of Branch Office Services and Bureau of Driver and Vehicle Records, Department of State.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Agency

The Department of State's executive officer, the Secretary of State, is an elected official who serves a four-year term. The Department's responsibilities include administering and enforcing sections of the Michigan Vehicle Code (Sections 257.1 - 257.923 of the *Michigan Compiled Laws*) pertaining to the registration of vehicles and the licensure of vehicles and operators. The Department's mission* related to its vehicle registration and vehicle and operator licensure processes is to provide accurate records and timely services. The Secretary of State has assigned these responsibilities to the Bureau of Branch Office Services (BBOS) and the Bureau of Driver and Vehicle Records (BDVR).

BBOS is responsible for the Statewide system of Department branch offices. BBOS's primary functions are to register motor vehicles; license motor vehicles, watercraft, snowmobiles, motorcycles, motor vehicle operators, chauffeurs, and commercial driver operators; and collect the fees and taxes provided for in the Michigan Vehicle Code and General Sales Tax Act (Sections 205.51 - 205.78 of the *Michigan Compiled Laws*). For fiscal year 2000-01, the Department collected driver licensing and vehicle registration fees and taxes at its branch offices and elsewhere totaling approximately \$2.1 billion. As of June 30, 2002, BBOS operated 173 branch offices that provided driver licensing and vehicle registration services and had 1,202 employees.

BDVR is responsible for processing court abstracts* to update the State's master driver records; reviewing and processing manual vehicle title, registration, and driver license transactions; microfilming documents; and reconciling branch office collections and transactions processed. BDVR estimates that it handles over 27 million paper documents each year. As of June 30, 2002, BDVR had 364 employees.

In 1986, the United States Congress passed the Commercial Motor Vehicle Safety Act, which established a uniform licensing system for all commercial motor vehicle (CMV) drivers in all 50 states. The goal of the Act is to improve highway safety by ensuring that drivers of large trucks and buses are qualified to operate those vehicles and to remove unsafe and unqualified drivers from the highways. The Act retained states' rights to issue a driver license but established minimum national standards that states must meet when licensing CMV drivers. These standards require states to issue

* See glossary at end of report for definition.

commercial driver licenses (CDLs) to their CMV drivers only after the drivers have passed knowledge and skills tests related to the type of vehicle to be operated.

In addition, the Act requires that a driver have a CDL to operate a CMV that weighs 26,001 pounds or more; hauls hazardous materials; or transports at least 16 passengers, including the driver. CMV drivers are limited to a single license that is issued by one state but recognized in all other states.

The Department administers the knowledge tests, and CDL skills tests are conducted by approved third party skills test examiners. In February 2002, there were approximately 280,000 commercial driver licensees in Michigan and 193 third party skills test examiners.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Driver Licensing and Vehicle Registration Processes of the Bureau of Branch Office Services (BBOS) and the Bureau of Driver and Vehicle Records (BDVR), Department of State, had the following objectives:

1. To assess the effectiveness* and efficiency* of BBOS's and BDVR's procedures for processing driver license and vehicle registration applications.
2. To assess the effectiveness of BBOS's and BDVR's internal control* over driver licensing and vehicle registration-related revenues.
3. To assess the effectiveness of the Department's commercial driver license (CDL) program to ensure that only qualified drivers obtain and possess a CDL.

Audit Scope

Our audit scope was to examine the driver licensing and vehicle registration processes and related records of the Bureau of Branch Office Services and the Bureau of Driver and Vehicle Records. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, conducted from January through August 2002, included examination of BBOS's and BDVR's records and activities for the period October 1, 1999 through July 31, 2002.

We conducted a preliminary review that consisted of interviewing management and program staff and reviewing applicable laws, regulations, policies and procedures, and other agency reports and manuals. The purpose of the preliminary review was to obtain an understanding of BBOS's and BDVR's operations and to plan our audit.

To accomplish our first objective, we reviewed the agency's process for selecting branch offices for closure and assessed the agency's procedures for processing driver

* See glossary at end of report for definition.

licenses and vehicle registrations. We analyzed the agency's procedures and management control* over accessing and changing information contained in driver and vehicle records. In addition, we assessed the agency's procedures for obtaining driving conviction court abstracts and recording them in the State's master driver records. We analyzed a sample of abstracts to determine whether they were recorded accurately and in a timely manner.

To accomplish our second objective, we assessed the internal control related to the processing of driver license and vehicle registration-related revenues. We visited 12 branch offices and assessed their procedures related to the processing of driver and vehicle transactions and the controls related to revenue collections and deposits.

To accomplish our third objective, we examined the Department's procedures and operations related to its CDL program and verified its compliance with Federal Motor Carrier Safety Administration regulations for licensing and testing of commercial motor vehicle (CMV) drivers. We assessed the Department's procedures for monitoring CMV drivers and suspending those drivers who operate a CMV in an unsafe manner. In addition, we analyzed the Department's procedures for selecting and monitoring third party skills test examiners.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 5 findings and 7 corresponding recommendations. The Department's preliminary response indicated that it agreed with 3 findings, partially agreed with 1 finding, and disagreed with 1 finding and that it has taken or will take steps to comply with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of State to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

The Department complied with 4 of the 5 prior audit recommendations included within the scope of our current audit. We repeated 1 prior audit recommendation in this audit report.

* See glossary at end of report for definition.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS AND EFFICIENCY OF PROCESSING DRIVER LICENSE AND VEHICLE REGISTRATION APPLICATIONS

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Bureau of Branch Office Services' (BBOS's) and the Bureau of Driver and Vehicle Records' (BDVR's) procedures for processing driver license and vehicle registration applications.

Conclusion: We concluded that BBOS's and BDVR's procedures for processing driver license and vehicle registration applications were generally effective and efficient. However, we noted reportable conditions* related to evaluation of BBOS effectiveness, system access controls, and recording of court abstracts (Findings 1 through 3).

FINDING

1. Evaluation of BBOS Effectiveness

BBOS could improve its process to evaluate the overall effectiveness and efficiency of its efforts to accomplish its mission and goals*.

The State Legislature and the Governor have required, in various appropriations acts and in Executive Directive No. 1996-1, that State programs use quality improvement processes to manage the use of limited State resources. Also, Executive Directive No. 2001-3, which rescinded Executive Directive No. 1996-1 effective June 8, 2001, stated that it was a goal to increase efforts toward continuous improvement and ensure the implementation of quality and customer service management techniques.

BBOS can best evaluate program effectiveness and efficiency by establishing a continuous quality improvement process. Such a process should

* See glossary at end of report for definition.

include: performance indicators* for measuring outputs* and outcomes*; quantified performance standards* or goals that describe the desired level of outcomes based on management's expectations, peer group performance, and/or historical data; a management information system to accurately gather actual output and outcome data; a comparison of the actual data with desired outputs and outcomes; a reporting of the comparison results to management; and proposals of program modifications to improve effectiveness and efficiency.

Specifically, our audit disclosed:

- a. BBOS had not established quantified performance standards or goals by which management could assess the effectiveness and efficiency of its branch office operations. The Field Services Administration, which includes BBOS and the Office of Quality Assurance, developed a business plan that identified various objectives associated with achieving its mission. However, these objectives were not quantified. For example, objectives included "accurately following procedures and closely examining documents to prevent errors and return visits to branch offices," "addressing service problems quickly," and "developing ways to reduce expenditures and time required to complete transactions." BBOS had not developed a process to quantify or measure how it has become more accurate or quicker or has reduced expenditures or processing time to achieve its objectives.

BBOS collects various sources of branch office information, such as transaction volumes, revenue and expenditure totals, transaction errors, and customer wait times. However, BBOS could enhance its monitoring and evaluation process if it developed a number of quantified performance standards or goals. Examples could include:

- (1) Acceptable transaction processing error rates.
- (2) Acceptable average time that customers waited in the branch offices for the processing of their transactions.
- (3) Expected average number of customers served by the branch offices.

* See glossary at end of report for definition.

Establishing quantified performance standards or goals would allow BBOS to assess the effectiveness and efficiency of its branch office operations and to help identify areas requiring improvement.

- b. BBOS had not developed an evaluation process for selecting branch offices for closure that would have the least negative impact on meeting its objectives.

Executive Order No. 2001-9 required the Department of State to reduce its expenditures by \$3,037,800, of which BBOS was required to reduce its expenditures by \$1 million. The Department chose to close four branch offices to adhere to the requirements of the Executive Order. We were informed that the Department selected the branch offices to close based primarily on their geographical locations, their proximity to other branch offices, condition of the physical plant, lease costs, landlord relationships, and overall population trends within the county or metropolitan area.

In our review of BBOS's process to determine the need to close the branch offices and its selection of branch offices to close, we noted:

- (1) The Department did not correctly identify the savings associated with the closing of the four branch offices. The Department identified a savings of \$1.1 million through the reduction of salaries and wages (\$825,000); contractual services, supplies, and materials (\$104,000); and rent (\$143,000). However, the Department reassigned the employees from the closed branch offices to other branch offices. As a result, considering the reductions in salaries and wages from the closed branch offices as a savings was not correct. The Department actually met the budgetary reductions through Statewide reductions in travel expenditures (\$100,000); Statewide reduction in branch office staffing (\$500,000); and the elimination of branch office manager trainee positions (\$320,000).
- (2) The Department did not consider other alternatives to the closure of branch offices in meeting the requirements of the Executive Order. For example, as mentioned in item (1), the Department estimated a savings of \$500,000 through the Statewide reduction in branch office staffing, primarily decreasing the use of temporary work staff.

The Department establishes a budget of available staff hours for each branch office, which are allocated for full-time and temporary workers. To achieve the estimated savings, the Department reduced each branch office's budget of available temporary staff work hours. It did not appear that the Department considered a further Statewide reduction in branch office staffing, which would have eliminated the need to close any branch offices. Our analysis indicated that an additional 2.5% reduction in budgeted staff work hours, approximately 4.5 hours per week for each branch office, would have provided the necessary expenditure reductions to meet the Executive Order requirements.

The closure of a branch office is generally a controversial decision. The development of an evaluation process would provide the Department with a documented basis for its decision to close a branch office. In addition, an evaluation process could assist in ensuring the accuracy of the computations and the consideration of alternatives to closure.

RECOMMENDATION

We recommend that BBOS improve its process to evaluate the overall effectiveness and efficiency of its efforts to accomplish its mission and goals.

AGENCY PRELIMINARY RESPONSE

BBOS stated that it partially agreed with the finding and responded:

- a. BBOS agreed that it could improve its process to evaluate overall effectiveness and efficiency of its efforts to accomplish its mission and goals. BBOS maintains numerous reports that accumulate information related to branch office transaction volumes, revenues, expenses, wait times, errors, and demographic data. This data, along with customer feedback through customer letters, e-mails, and comment card reports, is utilized by BBOS management to assess the effectiveness of its operations. The Office of the Auditor General's recommendation of setting quantified performance standards on a Statewide basis, such as a standard wait time, would be unfair and unrealistic in many cases. BBOS manages 173 branch offices of varying size and operation, i.e., number of staff, hours of operation, number of transactions, mix of easy vs. difficult transactions, making each branch unique in its operation. Additionally, calculating averages using all branch office data creates some

interesting numbers that can be used to illustrate general branch functions, but the averages cannot and should not be a basis for performance. BBOS believes that using such standards would be counterproductive and would unfairly misrepresent branch performance.

Epilogue: As pointed out in the audit finding, BBOS does generate numerous reports that could be used to evaluate and improve branch office operations. However, it has not established expectations upon which to evaluate the numbers being reported. Also, we have not recommended that the Department develop Statewide standards. Standards should always be established for similar or comparable operations.

- b. The *Michigan Compiled Laws* require the Secretary of State to maintain a branch office in the State capitol complex, at least one office in each county, and a branch office in cities with a population of 10,000 or more, but not within a radius of 5 miles from the county office location. In addition, the Secretary of State may maintain a branch office in other places that the Secretary of State considers necessary. Beyond these requirements set forth by the Legislature, the establishment and disestablishment of branch offices is clearly a management decision within the authority of the Secretary of State. Many factors, in addition to the effectiveness and efficiency of the branch office, are considered when deciding to close a branch office, including the condition of the physical plant, lease costs, landlord relationships, the nearness of other branches, and the overall population trends within the county or metropolitan area. BBOS contends that office closures do not fall within the scope of this audit.

The finding contends that BBOS could have met the budget reduction by reducing the number of hours in each branch office by approximately 4.5 hours per week. Unfortunately, some offices do not have even 4.5 hours per week to spare. They are small offices, staffed with only a manager for significant portions of the year. Reducing hours across the board by even this much means that those offices would have to close for a portion of the week. In effect, BBOS did reduce staffing across the State when it removed \$500,000 from wages and salaries and \$320,000 in trainee positions. Strategically, BBOS could not close an office, layoff the staff, and remove all of the wages and salaries from the one area. To illustrate, when the Muskegon Heights office was closed, the transactions in this area would not disappear;

they would move to the other Muskegon office. To maintain an acceptable service level, hours and staffing must move from Muskegon Heights to Muskegon. This scenario took place in each area where a branch office was closed. BBOS cannot maintain an infrastructure of over 170 branch offices as headcount and staffing dollars are reduced each year. Thus, branch office closures or, in reality, office consolidations have to occur to maintain service levels.

Epilogue: The location and availability of branch offices directly impacts the Department's ability to process driver and vehicle transactions timely and accurately and clearly falls within the scope of our audit objectives. Our finding points out a need for the Department to document its conclusions and basis for the closure of branch offices. In the Department's response, it stated that some offices may not have 4.5 hours per week to spare and could result in the closing of branch offices for a portion of the week. The question that the documentation would answer is, "Would the complete closure of a branch office have less of an impact on operations and the citizens than a partial closure of several branch offices?"

FINDING

2. System Access Controls

BDVR's management control was not sufficient to restrict employees' access to the Department's management information system based on need. Also, BDVR did not maintain documentation of its reviews of changes made to driver and vehicle records, as required.

The Department's management information system contains the driver license, personal identification, vehicle title, and vehicle registration records for the State. BDVR employees use passwords to access the records in the Department's management information system. Each password provides the user with certain privileges in the management information system, such as the ability to review or change records. Our review of the Department's management information system disclosed:

- a. Some BDVR employees had administrative passwords with input privileges and other access privileges that they did not need. We noted that 15 (10%) of 156 employees with administrative passwords did not need the input

capabilities available to them. For example, employees responsible for compiling and reconciling branch office reports had input capabilities.

- b. BDVR did not maintain required documentation of its reviews of changes made to driver and vehicle records.

Employees from 16 work areas within BDVR, 2 work areas within the Office of Customer Services, and 5 work areas within the Resource Management Systems Administration can access and change driver and vehicle records. BDVR's procedures require that unit supervisors or lead workers perform monthly random reviews of source documents and the State's master driver records to help ensure accurate posting of changes to the records. Documentation of the reviews is required to be maintained for one year. Supervisors stated that such reviews were completed; however, documentation of the reviews was not maintained. Without the review documentation, BDVR could not verify that the reviews were completed.

The State, courts, and law enforcement agencies rely on the validity and accuracy of the driver license, personal identification, vehicle title, and vehicle registration computer records. The lack of sufficient management control over access to and changes made to computer records increases the risk of unauthorized changes to those records.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT BDVR IMPROVE ITS MANAGEMENT CONTROL TO RESTRICT EMPLOYEES' ACCESS TO THE DEPARTMENT'S MANAGEMENT INFORMATION SYSTEM BASED ON NEED.

We also recommend that BDVR maintain documentation of its reviews of changes made to driver and vehicle records, as required.

AGENCY PRELIMINARY RESPONSE

BDVR agreed with the finding and stated that it is currently revising its internal control structure to address employee mainframe access privileges. In addition, the Department's organizational structure is being revised to include an information security officer and will consolidate system access approvals to a single location

within the agency. Also, BDVR informed us that its work units with record change access rights now reflect the need to document the periodic supervisory reviews.

FINDING

3. Recording of Court Abstracts

BDVR should improve its monitoring of court abstracts.

The Department and Michigan courts share the responsibility for ensuring the timely posting of court abstracts for traffic-related convictions to the State's master driver records. Approximately 240 probate, district, circuit, and municipal courts are required to submit an abstract for each conviction related to a Michigan Vehicle Code violation to the Department within 14 days of the conviction. The Department is required to record the conviction in the master driver records within 10 days after receiving a properly prepared abstract from the courts or a court's software services vendor. The Department processed approximately 1.28 million abstracts during fiscal year 2000-01. Our review of the abstract processing procedures disclosed:

- a. BDVR did not have management control procedures in place to ensure that it received all abstracts from the courts for processing.

When a person is convicted of a traffic-related offense or felony, most courts enter abstract data into an electronic data system. Courts create their own data files and submit them directly to BDVR or contract with a software services vendor to perform editing functions. Edited data files are then submitted to BDVR for processing. The State Court Administrative Office (SCAO) monitors approximately 60% of all courts for the timely and consistent submission of abstract data through the use of its software services vendor.

BDVR records the court name and the number of abstracts received on a control log when courts or software services vendors submit data files to BDVR for abstract processing. However, this process does not ensure that courts have submitted all of their abstracts. BDVR should develop management control procedures to record the time periods associated with abstracts received, monitor the control log to help ensure that courts have

submitted all of their abstracts, or confirm with the courts the total number of abstracts submitted for processing.

BDVR stated that it is the responsibility of the courts to ensure that they submit all abstracts in compliance with the Michigan Vehicle Code. However, because of the importance of the abstract information related to BDVR driver licensing operations, BDVR should develop management control procedures to help ensure that it receives and processes all abstracts.

- b. BDVR did not monitor the status of abstracts returned to the courts for additional processing or error correction.

BDVR processes abstracts through various edit checks prior to entering information on the master driver records. BDVR corrects abstracts with error conditions or returns the abstracts to the courts for resolution and resubmission. BDVR did not have management control procedures to account for the abstracts returned to the courts to ensure that they were later returned to BDVR for processing. Without control procedures, BDVR cannot ensure that all abstracts returned to the courts for additional processing are subsequently updated to the master driver records.

We reviewed a sample of 36 abstracts received by BDVR in July 2001 and subsequently returned to the courts for correction of errors. In 8 (22%) instances, the master driver records did not reflect the convictions that BDVR originally received from the courts more than one year ago.

State law enforcement and governmental agencies rely extensively on the master driver records for driver conviction record information. These records can include information related to revoked or suspended driver licenses or convictions for driving under the influence of alcohol or a controlled substance. Thus, it is essential that the master driver records system reflect all court abstracts.

RECOMMENDATIONS

To improve its monitoring of court abstracts, we recommend that:

- a. BDVR establish management control procedures to ensure that it receives abstracts from the courts for processing.

- b. BDVR monitor the status of court abstracts returned to the courts for additional processing or error correction.

AGENCY PRELIMINARY RESPONSE

BDVR disagreed with the finding but informed us that it will implement control procedures to better monitor court abstracts.

BDVR stated that the Michigan Vehicle Code only requires it to record conviction information within 10 days after receipt of a properly prepared abstract from the courts, and it is not responsible for ensuring that the courts submit timely, accurate abstracts or for monitoring abstracts returned to the courts.

BDVR stated that it is working closely with its record partners at the Department of Information Technology and with the SCAO to ensure accurate and timely posting of abstract data and to resolve discrepancies. Error reports are shared with the courts to document abstract volume received and processed.

BDVR expects technology upgrades by various record partners will improve data integrity and timeliness and ultimately provide the basis for the sought after end-to-end tracking. BDVR informed us that the SCAO will complete a project to install a network point of presence in every county for the purpose of expediting the exchange of abstract and criminal record information. In addition, the Department is working closely with the SCAO to speed the electronic exchange of data, which will end the reliance on the old tape and disc media process. Once complete, this will allow the Department to update the abstract activity daily, rather than weekly. Also, in the interest of data quality and traffic safety, BDVR stated that it has developed a process to periodically review select courts to monitor the progress of abstract error resolution and resubmission to BDVR for processing. BDVR also stated that it will selectively monitor the courts' semi-annual certifications verifying their submission of all abstracts.

EFFECTIVENESS OF INTERNAL CONTROL OVER REVENUES

COMMENT

Audit Objective: To assess the effectiveness of BBOS's and BDVR's internal control over driver licensing and vehicle registration-related revenues.

Conclusion: We concluded that BBOS's and BDVR's internal control over driver licensing and vehicle registration-related revenues was generally effective. However, we noted a reportable condition related to branch office deposits (Finding 4).

Noteworthy Accomplishments: The Department implemented a new cash management computer-based system that provides branch offices with cashier and revenue-recording functions. This new server-based system allows branch offices to perform multiple transactions for customers and automates many of its revenue-collecting functions. The new cash management system replaces the paper-based manual system that was used previously in conjunction with intelligent terminals*.

FINDING

4. Branch Office Deposits

BBOS needs to strengthen its internal control over the deposit of cash receipts at its branch offices.

Branch office staff are responsible for depositing cash receipts received for transactions processed at the branch offices. BBOS's procedures require that branch office staff verify the bank-validated deposit slips to corresponding branch office cash receipt and deposit documentation to help ensure the deposit of all receipts. Branch offices collected over \$1.7 billion in driver and vehicle fees and taxes for fiscal year 2000-01.

We reviewed 118 deposits made at 12 branch offices and noted 3 discrepancies, ranging from \$81 to \$4,603, between the bank-validated deposit slips and the corresponding branch office cash receipt and deposit documentation. There was no indication that the branch offices verified the bank-validated deposit slips with the branch office cash receipt and deposit documentation.

* See glossary at end of report for definition.

Branch office procedures do not require that staff document their verification of the bank-validated deposit slips to the cash receipt and deposit documentation. Requiring staff to document their verifications would help to ensure that the required verifications were completed and to promptly identify deposit errors.

RECOMMENDATION

We recommend that BBOS strengthen its internal control over the deposit of cash receipts at its branch offices.

AGENCY PRELIMINARY RESPONSE

BBOS agreed with the finding and informed us that it has enacted a procedure that requires branch office staff to verify the bank validation with the deposit total by initialing the bank validation.

EFFECTIVENESS OF COMMERCIAL DRIVER LICENSE (CDL) PROGRAM

COMMENT

Audit Objective: To assess the effectiveness of the Department's CDL program to ensure that only qualified drivers obtain and possess a CDL.

Conclusion: We concluded that the Department's CDL program was generally effective in ensuring that only qualified drivers obtain and possess a CDL. However, we noted a reportable condition related to CDL certification (Finding 5).

Noteworthy Accomplishments: The Department noted that it had established a connection between its operations and its CDL record partners at the National Driver Register and the Commercial Driver License Information System. This connectivity enables the Department to check these CDL national driver license databases to verify driver identity and eligibility, improve customer service, and promote traffic safety.

FINDING

5. CDL Certification

The Department had not developed thorough review procedures for the performance of its annual CDL certification.

Title 49, Part 384, section 305 of the *Code of Federal Regulations* requires that states review their compliance with Federal Motor Carrier Safety Administration (FMCSA) regulations and provide an annual certification of their compliance to the FMCSA administrator. In certifying its compliance, a state is affirming that it remains in substantial compliance with the federal regulations related to the licensing and enforcement of commercial motor vehicle drivers. To be in substantial compliance with the federal regulations, a state concludes that the demonstrable combined effect of its regulations, administrative procedures, internal control, and resource assignments are adequate to preclude persons from driving a commercial motor vehicle unless they possess the proper knowledge and driving qualifications.

The Department certification procedures consist primarily of inquiries of its CDL management and its annual on-site inspections of third party skills testing organizations.

An audit of FMCSA conducted by the U.S. Office of Inspector General, U.S. Department of Transportation, noted that when the annual state certification requirement was instituted, federal officials set the date for a state's annual certification at a point in time that would enable the state to conduct a thorough review of its compliance. However, FMCSA had not established guidelines on what constitutes a thorough review. The audit report noted that none of the 13 states visited, including Michigan, had audited or documented reviews that could serve as a basis for conclusions provided to FMCSA for the states' annual certifications.

To help ensure compliance with the FMCSA regulations, the Department should develop thorough review procedures for performing its annual CDL certification. For example, procedures should include a review of licensing transactions to verify that CDLs were issued to only qualified drivers, CDL licensing information was entered into the national CDL database within required time frames, and there was follow-up of corrective actions related to previous FMCSA review recommendations. More rigorous self-assessments of the CDL program would increase the opportunity for early detection and correction of program weaknesses.

RECOMMENDATION

We recommend that the Department develop thorough review procedures for the performance of its annual CDL certification.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the finding and informed us that it has developed thorough review procedures and will perform its annual CDL program review based upon these procedures. All 23 points from the FMCSA "CDL Compliance Indicator" will be reviewed with staff from the affected areas and the output documented. The Department informed us that this new procedure was implemented with the annual certification submitted in December 2002.

Glossary of Acronyms and Terms

BBOS	Bureau of Branch Office Services.
BDVR	Bureau of Driver and Vehicle Records.
CDL	commercial driver license.
CMV	commercial motor vehicle.
court abstracts	Court documents providing conviction information. These documents can include convictions for driving under the influence of alcohol or a controlled substance, negligent homicide, manslaughter, etc.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
FMCSA	Federal Motor Carrier Safety Administration.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
intelligent terminals	A computer system used for recording transactions at branch offices.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
management control	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that goals are met; resources are used in compliance with laws and

regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.

mission The agency's main purpose or the reason that the agency was established.

outcomes The actual impacts of the program.

outputs The products or services produced by the program.

performance audit An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

performance indicators Information of a quantitative or qualitative nature used to assess achievement of goals and/or objectives.

performance standard A desired level of output or outcome.

reportable condition A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

SCAO State Court Administrative Office.