



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

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

Audit report information can be accessed at:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Cash Receipts and Branch Office Customer
Service
Department of State

Report Number:
231-0200-08

Released:
May 2009

The Department of State's responsibilities include administering and enforcing sections of the Michigan Vehicle Code (Act 300, P.A. 1949, being Sections 257.1 - 257.923 of the Michigan Compiled Laws) pertaining to the registration of vehicles, the licensure of vehicles and operators, and the collection of related fees and taxes. The Department's mission is to deliver modern, efficient, cost-effective, and convenient service to the citizens of Michigan.

Audit Objective:

To assess the effectiveness of the Department's efforts in establishing controls over its cash receipts operations to ensure the proper safeguarding of assets.

Audit Conclusion:

The Department's efforts in establishing controls over its cash receipts operations to ensure the proper safeguarding of assets were moderately effective. We noted three reportable conditions (Findings 1 through 3).

Reportable Conditions:

The Department did not establish sufficient controls over user access to its Branch Office System to ensure proper accountability for the transactions processed by each employee (Finding 1).

The Department did not establish sufficient controls over access to its Revenue Processing System to ensure appropriate segregation of duties among users (Finding 2).

The Department did not establish sufficient controls to ensure that branch office employees properly documented and approved void transactions (Finding 3).

~ ~ ~ ~ ~

Audit Objective:

To assess the effectiveness of the Department's efforts to ensure that appropriate fees are charged to customers and are collected and recorded in an accurate and timely manner.

Audit Conclusion:

The Department's efforts to ensure that appropriate fees are charged to customers and are collected and recorded in an accurate and timely manner were moderately effective. We noted two reportable conditions (Findings 4 and 5).

Reportable Conditions:

The Department had not established sufficient controls to ensure the accuracy of new vehicle registration fees charged to customers. In addition, the Department needs to improve its controls over the

processing of fee adjustments and refunds.
(Finding 4)

The Department did not implement controls to help ensure that it suspended operator or chauffeur licenses in a timely manner when non-sufficient funds checks were returned (Finding 5).

~ ~ ~ ~ ~

Audit Objective:

To assess the effectiveness of the Department's efforts in providing efficient customer service at branch offices.

Audit Conclusion:

The Department's efforts in providing efficient customer service at branch offices were effective. Our report does not include any reportable conditions related to this audit objective.

~ ~ ~ ~ ~

Agency Response:

Our audit report contains 5 findings and 6 corresponding recommendations. The Department's preliminary response indicated that it agrees with all of the recommendations and has complied or will comply with them.

~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

May 20, 2009

The Honorable Terri Lynn Land
Secretary of State
Richard H. Austin Building
Lansing, Michigan

Dear Secretary Land:

This is our report on the performance audit of Cash Receipts and Branch Office Customer Service, 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

TABLE OF CONTENTS

CASH RECEIPTS AND BRANCH OFFICE CUSTOMER SERVICE DEPARTMENT OF STATE

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Agency	6
Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up	8
COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES	
Effectiveness of Efforts in Establishing Controls Over Cash Receipts Operations	12
1. Branch Office System (BOS) Controls	12
2. Revenue Processing System (RPS) Access Controls	14
3. Void Transactions	16
Effectiveness of Efforts to Ensure Appropriate Fees Are Charged, Collected, and Recorded in an Accurate and Timely Manner	18
4. Customer Fees	19
5. Non-Sufficient Funds (NSF) Checks	25
Effectiveness of Efforts in Providing Efficient Customer Service at Branch Offices	26
GLOSSARY	
Glossary of Acronyms and Terms	28

Description of Agency

The Department of State's responsibilities include administering and enforcing sections of the Michigan Vehicle Code (Act 300, P.A. 1949, being Sections 257.1 - 257.923 of the *Michigan Compiled Laws*) pertaining to the registration of vehicles, the licensure of vehicles and operators, and the collection of related fees and taxes. Also, the Department oversees the Statewide elections process and administers various programs to enhance traffic safety and protect consumers. The Department's mission* is to deliver modern, efficient, cost-effective, and convenient service to the citizens of Michigan.

The Department's executive officer, the Secretary of State, is an elected official who serves no more than two four-year terms. The Department is organized into the Executive Office and three main service areas: Customer Services Administration (CSA), Department Services Administration (DSA), and Legal and Regulatory Services Administration (LRSA).

CSA provides customer services to Michigan citizens and businesses for Secretary of State programs. Revenue is collected through CSA's Bureau of Branch Office Services and Office of Customer Services. The Bureau of Branch Office Services operates a network of branch offices that provide driver's licensing, vehicle titling and registration, and voter registration services to the citizens of Michigan. As of June 30, 2008, the Department had 148 branch offices and 1 mobile branch office. The Office of Customer Services oversees the Renewal-By-Mail, Web, and Touchtone programs and the Uniform Commercial Code. It also provides assistance to International Registration Plan vehicle owners and Out-of-State Resident Services customers.

DSA provides coordination and support to the Department in the areas of administration, finance, technology, and human resources. Revenue is collected through DSA's Revenue Collection and Monitoring Section, which functions as the Department's head cashier and serves as the Department's banking liaison between branch offices, the Department of Treasury, and banking institutions. The Section is also responsible for the proper collection and distribution of departmentwide service, tax, and license revenues; development of revenue estimates used to establish the Department's budget; and preparation of financial statements and reports.

* See glossary at end of report for definition.

LRSA consists of the Bureau of Information Security, the Bureau of Regulatory Services, and the Office of the Great Seal. The Bureau of Information Security is responsible for protecting the Department's records and other assets through security, audit, and enforcement activities. The Bureau of Regulatory Services provides legal support to the Department and issues business credentials for dealers, repair facilities, driver training schools, and third party test organizations.

During fiscal year 2006-07, the Department collected \$2.1 billion in fees and taxes. Of this amount, the Department collected \$1.5 billion (71%) at its branch offices. The remaining amounts were collected by the Department's central operations. Revenue collected by the Department is used to fund the Department's operations and the operations of certain other State departments. In fiscal year 2006-07, the Department expended approximately \$330 million, which included approximately \$134 million in expenditures for assigned claims activity. As of June 30, 2008, the Department had 1,525 employees, including 912 employees working in branch offices.

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

Audit Objectives

Our performance audit* of Cash Receipts and Branch Office Customer Service, Department of State, had the following objectives:

1. To assess the effectiveness* of the Department's efforts in establishing controls over its cash receipts operations to ensure the proper safeguarding of assets.
2. To assess the effectiveness of the Department's efforts to ensure that appropriate fees are charged to customers and are collected and recorded in an accurate and timely manner.
3. To assess the effectiveness of the Department's efforts in providing efficient customer service at branch offices.

Audit Scope

Our audit scope was to examine the cash receipts and branch office customer service processes and related records of the Department of State. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, conducted from April through September 2008, generally covered the period October 1, 2005 through June 30, 2008.

Audit Methodology

We conducted a preliminary review of the Department's cash receipts and branch office customer service to formulate a basis for defining the audit objectives and scope. Our preliminary review included a review of applicable laws and regulations, Department policies and procedures, and Department reports relating to cash receipts and branch office customer service. We interviewed personnel and observed daily activities at the

* See glossary at end of report for definition.

Department's central cashier office and in other units responsible for handling and recording cash receipts. We visited five branch offices and observed cash collection and handling activities and interviewed various branch office personnel. We obtained an understanding of the information systems used to record cash receipts and revenue by the Department.

To accomplish our first objective, we obtained an understanding of the Department's access controls over its information systems used to record cash receipts and revenue and we tested access rights, as appropriate. Also, we examined the Department's processes for reviewing and handling branch office cash exception reports and void branch office transactions. We tested a selection of void transactions, and the results are reported in Finding 3. The Department was unable to provide us with a complete population of void transactions for our audit period because of the extensive resources needed to restore the daily transaction backup files. Therefore, we tested all void transactions processed by a random selection of branch offices on randomly selected dates. Our selection was not designed to project the results to our population.

To accomplish our second objective, we tested branch office transactions for various branches during selected days in our audit period and compared the fees collected to the amount of the fee authorized to be collected by the applicable statute. We tested vehicle registration transactions, added fee invoice transactions, customer fee changes, and refund transactions, and the results are reported in Finding 4. Also, we reviewed the Department's processes for collecting funds related to non-sufficient funds checks.

The Department was unable to provide us with a complete population of vehicle registration transactions for our audit period because of the extensive resources needed to restore the daily transaction backup files. However, we obtained a population of vehicle registration transactions processed by the Department during May 2008 and tested a statistical sample of transactions from this population.

We projected the errors noted in the statistical samples of vehicle registration transactions, customer fee changes, and refund transactions to the population using statistical estimation methods. In testing our selection of added fee invoice transactions, we judgmentally determined the number of transactions for our review. Our selection of added fee invoice transactions was not designed to project the results to the population.

To accomplish our third objective, we examined the Department's processes for measuring and reporting customer wait times; tracking and evaluating cashier performance; and evaluating and reporting on branch office closings, relocations, and consolidations. We examined and tested the Department's data and reports as appropriate.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 5 findings and 6 corresponding recommendations. The Department's preliminary response indicated that it agrees with all of the recommendations and has complied or will comply with them.

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 the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require the Department to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

Within the scope of this audit, we followed up all 3 of the prior audit recommendations from our April 1999 performance audit of Cash Receipts Operations, Department of State (23-200-98). We also followed up 1 of the 6 prior audit recommendations from our May 1999 performance audit of the International Registration Plan, Department of State (23-251-98). The Department of State complied with 1 of the 4 prior audit recommendations. The other 3 recommendations were rewritten for inclusion in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF EFFORTS IN ESTABLISHING CONTROLS OVER CASH RECEIPTS OPERATIONS

COMMENT

Audit Objective: To assess the effectiveness of the Department of State's efforts in establishing controls over its cash receipts operations to ensure the proper safeguarding of assets.

Audit Conclusion: The Department's efforts in establishing controls over its cash receipts operations to ensure the proper safeguarding of assets were moderately effective. Our assessment disclosed three reportable conditions* related to Branch Office System (BOS) controls, Revenue Processing System (RPS) access controls, and void transactions (Findings 1 through 3).

FINDING

1. Branch Office System (BOS) Controls

The Department did not establish sufficient controls over user access to its BOS to ensure proper accountability for the transactions processed by each employee. As a result, the Department could not ensure that employees were prevented from accessing BOS under another user's name and processing unauthorized or improper transactions.

Department of Management and Budget (DMB) Administrative Guide policy 1335 requires State agencies to protect their information systems against unauthorized access through secure means of authentication, authorization, and accountability. DMB Administrative Guide procedure 1350.10 requires State agencies, in coordination with the Michigan Department of Information Technology, to identify and implement an appropriate method and level of authentication needed to safeguard their information systems from unauthorized access.

Department employees at branch offices and in some central office locations use BOS to process cash receipt transactions. Our review of access controls over BOS noted that BOS did not use a complete authentication process that verified a user's identity by the user's stored password. Although BOS user names are

* See glossary at end of report for definition.

stored in the system, their passwords are not. Instead, employees assign a password to themselves each day, and employees can use a different password each time they log into the system.

The Department established a compensating control whereby managers activate the user names of employees working that day. However, we noted that some branch office managers did not always activate the user names of only those employees working on a particular day. We reviewed the access rights granted to branch employees at 6 judgmentally selected branch offices on 5 judgmentally selected days in May 2008, for a total of 30 judgmentally selected days. We noted that on 7 (23.3%) of these 30 days, managers activated the user names of 1 or 2 employees who did not perform any functions in BOS that day. Activating the user names of employees who do not need access to BOS increases the risk that another employee could log in and process unauthorized transactions. However, branch managers could detect whether an employee improperly entered transactions under another employee's user name when an employee submits cash from his/her drawer to the branch manager throughout the day and during the end-of-day closing process.

Automated controls that use an authentication process based on stored passwords and force periodic password changes by users are more reliable than manual processes that are subject to human error.

RECOMMENDATION

We recommend that the Department establish sufficient controls over user access to its BOS to ensure proper accountability for the transactions processed by each employee.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it is implementing a new automated information system which will use an authentication process based on stored passwords with periodic password changes. The Department also informed us that the transition to this new strategy has already occurred for some branch office staff. However, the Department does not agree with the detailed finding which concludes a control problem currently exists, particularly when considered together with the referenced compensating control. The Department believes that the conclusion

was based on a "judgmentally selected" sample which is not a valid method to draw a representative statistical sample.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

Generally accepted government auditing standards do not require the use of statistical samples to obtain sufficient, appropriate audit evidence. Because the purpose of our testing was to identify control weaknesses and not to project an occurrence rate to the population, judgmentally selecting branch offices and service days was a valid method to obtain sufficient, appropriate audit evidence to conclude that the Department had not established sufficient controls over user access to BOS.

FINDING

2. Revenue Processing System (RPS) Access Controls

The Department did not establish sufficient controls over access to its RPS to ensure appropriate segregation of duties among users. As a result, the Department could not ensure that it could prevent or detect errors or irregularities that may be caused by users performing unauthorized duties.

Control Objectives for Information and Related Technology* (COBIT) provides that management should implement a division of roles and responsibilities that reduces the possibility for a single individual to compromise a critical process. Also, management should ensure that personnel are performing only authorized duties relevant to their respective jobs and positions. In general, the principal incompatible duties to be segregated are custody of assets, authorization or approval of related transactions affecting those assets, and recording or reporting of related transactions.

The Department uses RPS to record transactions related to revenue received by its cashier's office. RPS interfaces with the Michigan Administrative Information Network (MAIN), the State's financial accounting system.

* See glossary at end of report for definition.

Our review of system access rights over RPS disclosed:

- a. The Department assigned the role and duties of the RPS security administrator to an individual with incompatible responsibilities related to financial reporting. The security administrator role enables a user to manage user accounts and assign access to system resources. The RPS security administrator could not only manage user accounts but could also enter and approve financial transactions.

COBIT states that the security administrator function should not be assigned to employees responsible for financial reporting.

- b. The Department did not monitor user activity, including the activity of the security administrator, to ensure that users are performing only authorized activities relevant to their respective jobs and positions. While RPS contained some audit trails identifying which users entered and approved transactions, the security administrator did not routinely review these audit trails to monitor user access. In addition, the Department did not perform independent reviews of the security administrator's activities.

COBIT states that management should perform a regular review of all accounts and related privileges and a more frequent independent review of users with special privileged access rights.

RECOMMENDATION

We recommend that the Department establish sufficient controls over access to its RPS to ensure appropriate segregation of duties among users.

AGENCY PRELIMINARY RESPONSE

The Department agrees to explore alternative strategies over access controls to RPS to improve the segregation of duties among staff. However, the Department informed us that to fully implement the auditors' recommended controls over monitoring access, the Department will request a cost estimate to enhance the existing system and then seek additional appropriation from the Legislature to finance these internal control improvements.

FINDING

3. Void Transactions

The Department did not establish sufficient controls to ensure that branch office employees properly documented and approved void transactions. As a result, the Department was at an increased risk that employees could fraudulently void transactions and improperly handle funds received from customers.

Department procedures state that branch office employees must retain all voided documents and identify the reason for the void and, if applicable, the re-run transaction number on the voided document. Department procedures also state that branch office managers must review and account for all void transactions and voided documents and sign the end-of-day (EOD) report each day as evidence of their review. Managers must also send all voided documents, along with the signed EOD report, to the Department's Document Services Division in Lansing.

Department procedures also state that only branch office employees with administrative rights in BOS may process stand-alone void transactions, a void transaction processed in BOS at a later time. However, these employees must not approve their own stand-alone void transactions. A branch manager or another employee with administrative rights must approve the stand-alone void transaction. The procedures allow for an exception to this requirement for branch offices staffed by only one or two employees.

We tested all void transactions processed by 12 randomly selected branch offices on 5 randomly selected dates during the period October 1, 2005 through May 31, 2008. These branch offices processed 1,017 void transactions on these 5 days, for an average of 17 void transactions per day per office. Of the 1,017 void transactions, 122 were stand-alone void transactions. Our review noted:

- a. The Department did not ensure that branch offices documented a reason for all void transactions. We noted 93 (9.1%) void transactions for which the reason for the void was not documented.
- b. The Department did not ensure that branch offices documented the re-run transaction number for void transactions that were re-run. We noted that, for 95 (11.0%) of the 860 re-run void transactions, the branch offices did not document the transaction number.

- c. The Department did not ensure that all stand-alone void transactions were properly approved. We noted that 30 (24.6%) of the 122 stand-alone void transactions were entered and approved by the same employee who was not a branch manager or another employee with administrative rights.
- d. The Department did not ensure that branch offices submitted all voided documents to the Document Services Division. The Document Services Division was unable to provide us with documentation for 40 (3.9%) void transactions.
- e. The Department did not ensure that all signed EOD reports were submitted to the Document Services Division. The Document Services Division was unable to provide us with signed EOD reports certifying that the branch manager had reviewed all void transactions for 2 (3.3%) of the 60 days reviewed.

Implementing BOS system edits could help ensure that void transactions are properly documented and approved.

RECOMMENDATION

We recommend that the Department establish sufficient controls to ensure that branch office employees properly document and approve void transactions.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it is implementing a new automated information system which will edit the processing of transactions in a manner which will minimize the occurrence of void transactions and, in the limited instances in which a void is necessary, will require the entry of a reason for the void.

EFFECTIVENESS OF EFFORTS TO ENSURE APPROPRIATE FEES ARE CHARGED, COLLECTED, AND RECORDED IN AN ACCURATE AND TIMELY MANNER

COMMENT

Background: BOS, which is used to process cash receipt transactions at the Department's branch offices, automatically calculates the fees and taxes for most types of vehicle registration and licensing transactions based on vehicle and customer information stored in or input into BOS. For example, fees for vehicle registration transactions are generated based on the type of transaction and other information related to the vehicle, such as the year, make, and model of the vehicle and the expiration date of the plate. In fiscal year 2006-07, the Department's branch offices processed approximately 35 million transactions in BOS.

In some situations, branch office employees may need to change the vehicle registration or license fee in BOS in order to charge the correct fee to the customer. For example, if a customer's operator license has expired at the time of renewal, BOS calculates a late fee of \$7. However, if the customer was on active military duty at the time his or her operator's license expired and the customer applies for renewal within 30 days of returning to the State, the Department shall waive the late fee. This would necessitate a fee change in BOS.

In other situations, errors in fees charged to customers are discovered after the customer has paid the fee. For example, branch employees may have entered incorrect information into BOS, resulting in overcharging or undercharging fees to a customer. The Department, upon discovery of the error, either issues a refund to the customer or sends an added fee invoice to the customer.

Audit Objective: To assess the effectiveness of the Department's efforts to ensure that appropriate fees are charged to customers and are collected and recorded in an accurate and timely manner.

Audit Conclusion: **The Department's efforts to ensure that appropriate fees are charged to customers and are collected and recorded in an accurate and timely manner were moderately effective.** Our assessment disclosed two reportable conditions related to customer fees and non-sufficient funds checks (Findings 4 and 5).

FINDING

4. Customer Fees

The Department had not established sufficient controls to ensure the accuracy of new vehicle registration fees charged to customers. In addition, the Department needs to improve its controls over the processing of fee adjustments and refunds. As noted in this finding, the Department charged inaccurate fees to some customers and issued inaccurate and potentially inappropriate refunds to some customers.

The Michigan Vehicle Code (Act 300, P.A. 1949) requires that the Department levy and collect specific fees and taxes for the licensing of motor vehicle operators and the registration of vehicles. In addition, the Michigan Vehicle Code requires that the Department refund fees or taxes paid in error upon application and satisfactory proof of the error.

Section 257.801 of the *Michigan Compiled Laws* (a section of Act 300, P.A. 1949) requires the Department to charge vehicle registration fees for vehicles weighing less than 8,000 pounds with a model year of 1984 or newer by converting the vehicle's base price to a fee category. A vehicle's base price is calculated based on the manufacturer's suggested base price list, as published annually by the Department. If the Department has not yet published a base price for a vehicle at the time of the sale, the vehicle registration fee shall be calculated based on the manufacturer's suggested retail price as shown on the label affixed to the vehicle. If the manufacturer's suggested retail price is unavailable, the registration fee shall be calculated based on the purchase price of the vehicle. Department procedures require the submission of an RD-108 form when dealers and manufacturers register new vehicles with the Department, which includes the reporting of the vehicle's fee category in accordance with these statutory requirements.

Our review disclosed:

- a. The Department had not established sufficient controls to ensure the accuracy of the fee categories, as reported by dealers and manufacturers, used to calculate registration fees for new vehicles.

We obtained a population of vehicle registration transactions processed by the Department during May 2008, which consisted of 53,282 vehicle registration

transactions for new (previously untitled) vehicles with fee categories based on the manufacturer's suggested retail price or purchase price of the vehicle. We selected a statistical sample of 141 new vehicle registration transactions from this population.

Based on our review of base price information posted on vehicle manufacturer Web sites, we determined that the fee categories reported by dealers and manufacturers were not reasonable for 25 (17.7%) of the 141 transactions tested. In addition, we were unable to determine the reasonableness of the fee category for 41 (29.1%) transactions because the manufacturers reported several different base prices for the applicable vehicle on their Web sites. As a result, the Department overcharged or undercharged at least 25 customers for vehicle registration fees. Based on the calculation of vehicle registration fees for a 12-month period, we calculated differences in the registration fees charged ranging from an undercharge of \$70 to an overcharge of \$45.

The fee category remains with a vehicle record for the life of the vehicle. Therefore, these differences will continue to occur each year the customer renews his or her vehicle registration unless the Department corrects the fee category. Based on our sample results, we are 90% confident that the fee categories were not accurate for at least 6,613 but not more than 12,281 new vehicle transactions processed by the Department during May 2008.

The Department informed us that it relies on dealers and manufacturers to report correct fee categories when registering new vehicles, and it does not check the fee categories reported against its base price list or manufacturer Web site information. The Department also informed us that, because the Michigan Vehicle Code only requires the Department to update its base price list once a year, the base price list does not include information for all models of vehicles and accurate base prices for all vehicles because of mid-year price increases. Our review of the fee categories reported by dealers and manufacturers for our sample transactions noted 87 (61.7%) transactions for which the fee category was not consistent with the base price information published by the Department.

We noted a similar condition relating to vehicle registration fees in a prior audit. The Department responded that it agreed with the prior audit recommendation, but it could not comply because of limited budget resources.

- b. The Department needs to improve controls to ensure the accurate calculation of added fee invoices.

The Department issued 261 added fee invoices to customers between October 1, 2006 and June 16, 2008 for additional fees totaling \$32,833. Added fees resulted from the undercharging of fees to customers discovered after the customers had paid the fees. The invoice amounts ranged from \$15 to \$1,001 and averaged \$126 per invoice. We reviewed the 10 largest invoices from each fiscal year for a total of 20 invoices totaling \$11,828. We noted that the Department incorrectly calculated the added fees for 10 (50.0%) invoices, resulting in the overcharging of 7 customers by a total of \$839 and the undercharging of 3 customers by a total of \$1,064. In addition, the Department did not properly document the reason for 2 (10.0%) invoices totaling \$649. Therefore, we were unable to determine the accuracy of these two added fees.

Requiring managers to review and approve added fee calculations would help ensure the accuracy of added fee invoices.

- c. The Department needs to improve controls to ensure the accurate calculation of customer fee changes.

The Department processed 578,574 customer fee changes in BOS between October 1, 2006 and May 31, 2008 that resulted in the reduction of fees charged to some customers by \$8,059,008 and the increase of fees charged to some customers by \$3,432,276. The fee change amounts ranged from \$.03 to \$9,014 and averaged \$20 per fee change.

Our review of a statistical sample of 48 customer fee changes noted that the Department did not accurately calculate the fee for 4 (8.3%) fee changes, resulting in undercharging 4 customers by a total of \$23.

Based on our sample results, we are 90% confident that the Department did not charge accurate fees to at least 9,730 but not more than 86,699 customers between October 1, 2006 and May 31, 2008.

Branch office employees can process fee changes for all types of fees in BOS. BOS does not contain system edits to ensure that fee changes are calculated correctly. Requiring managers to review and approve fee change calculations would help ensure the accuracy of customer fee changes.

- d. The Department needs to improve controls to ensure the proper documentation, calculation, and issuance of refunds to customers.

Department procedures for processing refunds state that, prior to issuing a refund, the Department must ensure that it obtained proper documentation that the customer paid the amount in question and the reason for the refund.

The Department processed 86,456 refunds totaling \$6.6 million between October 1, 2005 and June 30, 2008. We reviewed 81 of the refunds, including a nonstatistical selection of 48 refunds that were more than \$10,000 each and a statistical sample of 33 refunds from the remaining population of 86,408 refunds. Our review disclosed:

- (1) The Department did not maintain documentation of proof of payment by the customer for 1 (2.1%) of the 48 refunds in the amount of \$19,050 and 3 (9.1%) of the 33 refunds totaling \$117. As a result, we could not determine whether the customers paid the amounts in question and whether the reason for the refund was appropriate.

Based on the results of our statistical sample of 33 refunds, we are 90% confident that the Department did not maintain documentation of proof of payment by the customer for at least 611 but not more than 15,099 of the 86,408 refunds.

- (2) The Department did not accurately calculate 2 (4.2%) of the 48 refunds, resulting in underpayments to 2 customers of \$1,000 and \$6. Because these errors occurred in our nonstatistical selection of 48 refunds, we did not project these errors to the entire population of refunds. The

Department subsequently issued the additional refund amounts to the 2 customers.

- (3) The Department did not accurately and consistently issue refunds of service fees to customers.

Section 257.801(3) of the *Michigan Compiled Laws* provides that, in addition to the registration tax on a vehicle, customers must also pay an \$8 service fee. The \$8 service fee consists of \$5.75 for the Department's Transportation Administration Collection Fund and \$2.25 for the Michigan Department of State Police's (MSP's) Traffic Law Enforcement and Safety Fund. In situations when a customer mistakenly pays the vehicle registration tax more than once on the same vehicle, the Department is only authorized by law to refund the specific registration tax paid on the vehicle and not the \$8 service fee. In situations when a customer sold his/her vehicle before placing a new license plate and/or tab on the vehicle, the Department is required to issue a full refund of the tax and service fee to the customer.

We noted that the Department incorrectly refunded either the MSP service fee or both service fees relating to 4 refunds and did not properly refund the Department of State service fee relating to 2 refunds.

Because these inconsistencies were related to refunds of service fees only, we did not project these to the entire population of refunds. However, we determined that the Department inappropriately refunded the MSP service fee but not the Department of State service fee in 5,327 (55.0%) of the 9,691 refunds involving service fees during the period October 1, 2005 through June 30, 2008.

RECOMMENDATIONS

We recommend that the Department establish sufficient controls to ensure the accuracy of new vehicle registration fees charged to customers.

We also recommend that the Department improve its controls over the processing of fee adjustments and refunds.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it is implementing a new automated information system which will systemically calculate fees based on an analysis of the vehicle identification number. However, the Department notes that existing procedures are compliant with the Michigan Vehicle Code, which does not allow for the use of Web site information maintained by manufacturers associated with each transaction processed, which is what the auditor used to determine the accuracy of fee categories.

The Department agrees that the 578,574 fee changes analyzed (in part c. of the finding) did range from \$.03 to \$9,014 and did average \$20 per fee change as noted in the report. However, the Department informed us that the median value of the 578,574 fee changes analyzed was only \$9. Further, 85.8% of the changes were for less than \$20 and only 2.1% were for more than \$100.

The Department also agrees to improve controls over fee adjustments and refunds by implementing a new automated information system to systematically require manager approval prior to processing adjustments. The Department informed us that new procedures for calculating and reviewing any added fees will be implemented. However, to fully address the risks associated with some of the noted exceptions, the Department informed us that it will request a cost estimate to develop new system interfaces with the automated information systems, and then seek additional appropriation from the Legislature to finance these internal control improvements.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

We agree that the Michigan Vehicle Code does not require the Department to use Web site information maintained by manufacturers to verify the accuracy of fee categories. However, the law does not specifically preclude the Department from using this information to verify the accuracy of fee categories. Further, the Department does have a responsibility to ensure that appropriate fees are charged to customers. We recognize that there are limitations in using Web site information posted by manufacturers. For example, there could have been a mid-year price increase after the vehicle was registered and the manufacturer updated its Web site to reflect this increase. Therefore, we only used the Web site information to determine the reasonableness of the fee categories reported. We followed up with the Department on all discrepancies and we did not take exception to differences

for which we determined that it was reasonable that the difference could have been because of a mid-year price increase. We believe that the Web site information obtained, combined with our understanding that the Department does not check the fee categories reported against its base price list or any other information source, provided sufficient, appropriate evidence to support our finding and recommendation.

FINDING

5. Non-Sufficient Funds (NSF) Checks

The Department did not implement controls to help ensure that it suspended operator and chauffeur licenses in a timely manner when NSF checks were returned. The Department's failure to suspend operator and chauffeur licenses in a timely manner may have reduced the Department's effectiveness in collecting money owed for NSF checks.

Prior to July 20, 2006, Section 257.801c of the *Michigan Compiled Laws* provided for the Department to suspend operator or chauffeur licenses of persons who pay a fee or tax on a vehicle with an NSF check and whose claim has been outstanding for at least 60 days. Effective July 20, 2006, this statute was amended to provide for the Department to suspend operator or chauffeur licenses of persons who pay any type of fee or tax to the Department with an NSF check, not just a fee or tax on a vehicle.

Our review disclosed that the Department did not implement procedures to comply with the change in legislation. As a result, during the period July 20, 2006 through June 30, 2008, the Department did not suspend the operator or chauffeur licenses of 2,435 persons who paid driver's license fees with NSF checks and who had outstanding claims for 60 days or more. These checks totaled approximately \$115,000. As of June 30, 2008, 52% of the claims remained outstanding.

The Department's Revenue Collection and Monitoring Section informed us that it started suspending licenses in compliance with the amended legislation in August 2008. The Section also informed us that the primary reason for the delay in suspending licenses was because of the need to update its computer system.

RECOMMENDATION

We recommend that the Department implement controls to help ensure that it suspends operator and chauffeur licenses in a timely manner when NSF checks are returned.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it has complied with this recommendation. The Department informed us that, in partnership with the Michigan Department of Information Technology, it has developed and implemented software modifications and began suspending licenses in compliance with the amended legislation in August 2008. This system programming was necessary to implement the amended legislation. In addition, the Department informed us that it has implemented a new process of referring NSF checks to the Eaton County Prosecutor's Office to assist with NSF collection efforts.

EFFECTIVENESS OF EFFORTS IN PROVIDING EFFICIENT CUSTOMER SERVICE AT BRANCH OFFICES

COMMENT

Audit Objective: To assess the effectiveness of the Department's efforts in providing efficient customer service at branch offices.

Audit Conclusion: **The Department's efforts in providing efficient customer service at branch offices were effective.** Our report does not include any reportable conditions related to this audit objective.

GLOSSARY

Glossary of Acronyms and Terms

BOS	Branch Office System.
Control Objectives for Information and Related Technology (COBIT)	A framework, control objectives, and audit guidelines published by the IT Governance Institute as a generally applicable and accepted standard for good practices for controls over information technology.
CSA	Customer Services Administration.
DMB	Department of Management and Budget.
DSA	Department Services Administration.
effectiveness	Success in achieving mission and goals.
EOD	end-of-day.
LRSA	Legal and Regulatory Services Administration.
mission	The main purpose of a program or agency or the reason that the program or agency was established.
MSP	Michigan Department of State Police.
NSF	non-sufficient funds.
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 program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.

reportable condition

A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

RPS

Revenue Processing System.

