

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF
THE DEPARTMENT OF
MOTOR VEHICLES'
INTERNAL OPERATIONS**



**AUSTIN A. ANDERSEN
INTERIM INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 7, 2005

Anne C. Witt
Director
Department of Motor Vehicles
301 C Street, N.W. Suite 1018
Washington, D.C. 20001

Dear Ms. Witt:

Enclosed is the final report summarizing the results of the Office of the Inspector General's (OIG) *Audit of the Department of Motor Vehicles' Internal Operations* (OIG No. 04-2-07KV(b)). The Director, Department of Motor Vehicles (DMV) requested the overall audit.

During the course of the audit, in order to solicit management's attention to urgent audit issues, we issued three Management Alert Reports (MAR). The MARs addressed Potential Health Hazards, MAR No. 04-A-11 issued on March 22, 2004; Controls over Negotiable Instruments, MAR No. 04-A-12 issued on March 24, 2004; and Loss of Revenue Due to Dishonored Checks and Related Fees, MAR No. 04-A-13 issued on April 9, 2004. Collectively, the MARs contained 10 recommendations that we believed were necessary to correct noted deficiencies. DMV responded positively to the recommendations and provided us with responses, which include actions taken or planned, to correct the conditions noted.

In addition to appending the MARs as report exhibits, this final report contains a finding that addresses a need for DMV to update its policy and procedures manual to include additional procedures for processing customer refunds and to develop procedures for handling dishonored checks. The report contains recommendations to address these concerns.

On January 18, 2005, DMV provided a response to a draft of this report. We consider actions taken and/or planned by DMV to be responsive to the recommendations. The full text of DMV's response is included at Exhibit J.

Ann Witt, Director, DMV
February 7, 2005
OIG No. 04-2-07KV(b) – Final Report
Page 2 of 3

We appreciate the cooperation and courtesies extended to our staff during the audit. Should you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in blue ink that reads "Austin A. Andersen". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Austin A. Andersen
Interim Inspector General

AAA/jw

Enclosure

cc: See Distribution List

DISTRIBUTION:

The Honorable Anthony A. Williams, Mayor, District of Columbia (1 copy)
Mr. Robert C. Bobb, Deputy Mayor/City Administrator, District of Columbia (1 copy)
Ms. Alfreda Davis, Chief of Staff, Office of the Mayor (1 copy)
Mr. Gregory M. McCarthy, Deputy Chief of Staff, Policy and Legislative Affairs (1 copy)
Ms. Sharon K. Gang, Interim Director, Office of Communications (1 copy)
The Honorable Linda W. Cropp, Chairman, Council of the District of Columbia (1 copy)
The Honorable Vincent B. Orange, Sr., Chairman, Committee on Government Operations, Council of the District of Columbia (1 copy)
Mr. Herbert R. Tillery, Deputy Mayor for Operations (1 copy)
Mr. Stanley Jackson, Deputy Mayor for Planning and Economic Development (1 copy)
Mr. Neil O. Albert, Deputy Mayor for Children, Youth, Families, and Elders (1 copy)
Mr. Edward D. Reiskin, Deputy Mayor for Public Safety and Justice (1 copy)
Ms. Phyllis Jones, Secretary to the Council (13 copies)
Mr. Robert J. Spagnoletti, Attorney General for the District of Columbia (1 copy)
Dr. Natwar M. Gandhi, Chief Financial Officer (5 copies)
Mr. Ben Lorigo, Executive Director, Office of Integrity and Oversight, OCFO (1 COPY)
Ms. Deborah K. Nichols, D.C. Auditor (1 copy)
Ms. Kelly Valentine, Interim Chief Risk Officer, Office of Risk Management,
Attention: Rosenia D. Bailey (1 copy)
Mr. Jeffrey C. Steinhoff, Managing Director, FMA, GAO (1 copy)
Ms. Jeanette M. Franzel, Director, FMA, GAO (1 copy)
The Honorable Eleanor Holmes Norton, D.C. Delegate, House of Representatives
Attention: Rosaland Parker (1 copy)
The Honorable Tom Davis, Chairman, House Committee on Government Reform Attention: Melissa C. Wojciak (1 copy)
Ms. Shalley Kim, Legislative Assistant, House Committee on Government Reform (1 copy)
The Honorable Rodney Frelinghuysen, Chairman, House Subcommittee on D.C. Appropriations (1 copy)
Mr. Joel Kaplan, Clerk, House Subcommittee on D.C. Appropriations (1 copy)
Mr. Tom Forhan, Staff Assistant, House Committee on Appropriations (1 copy)
The Honorable George Voinovich, Chairman, Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia (1 copy)
Mr. David Cole, Professional Staff Member, Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia (1 copy)
The Honorable Richard Durbin, Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia (1 copy)
Ms. Marianne Upton, Staff Director/Chief Counsel, Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia (1 copy)
The Honorable Mike DeWine, Chairman, Senate Subcommittee on D.C. Appropriations (1 copy)
Ms. Becky Wagner, Appropriations Director, Senator Mike DeWine (1 copy)
The Honorable Mary Landrieu, Senate Subcommittee on D.C. Appropriations (1 copy)
Ms. Kate Eltrich, Clerk, Senate Subcommittee on D.C. Appropriations (1 copy)
The Honorable Susan M. Collins, Chair, Senate Committee on Governmental Affairs
Attention: Johanna Hardy (1 copy)
The Honorable Joseph Lieberman, Ranking Minority Member, Senate Committee on Governmental Affairs, Attention: Patrick J. Hart (1 copy)

**AUDIT OF THE DEPARTMENT OF MOTOR
VEHICLES' INTERNAL OPERATIONS**

TABLE OF CONTENTS

EXECUTIVE DIGEST.....i

INTRODUCTION

 BACKGROUND 1

 OBJECTIVES, SCOPE, AND METHODOLOGY 1

AUDIT RESULTS

 FINDING: PROCESSING CUSTOMER REFUNDS AND DISHONORED
 CHECKS..... 3

EXHIBITS

 EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING
 FROM AUDIT9

 EXHIBIT B: SUMMARY OF MANAGEMENT ALERT REPORTS.....12

 EXHIBIT C: SCHEDULE OF DMV REFUND REQUESTS14

 EXHIBIT D: POTENTIAL HEALTH HAZARDS, MAR No. 04-A-1119

 EXHIBIT E: DMV RESPONSE TO MAR No. 04-A-1122

 EXHIBIT F: CONTROLS OVER NEGOTIABLE INSTRUMENTS,
 MAR No. 04-A-12.....24

 EXHIBIT G: DMV RESPONSE TO MAR No. 04-A-1228

 EXHIBIT H: LOSS REVENUE DUE TO DISHONORED CHECKS
 AND RELATED FEES, MAR No. 04-A-13.....31

 EXHIBIT I: DMV RESPONSE TO MAR No. 04-A-1335

 EXHIBIT J: DMV RESPONSE TO DRAFT REPORT.....38

EXECUTIVE DIGEST

OVERVIEW

The Office of the Inspector General has completed an audit of the District of Columbia Department of Motor Vehicles' (DMV) operations as it relates to the procedures used by DMV to process customer refunds and to collect revenues for dishonored checks and related fees. DMV issues and processes over 2.2 million tickets annually, in addition to conducting about 190,000 scheduled and unscheduled adjudication hearings pertaining to traffic tickets.

This is the second of two audits that address various functions associated with DMV's operations. The first audit covered DMV's participation in the International Registration Plan and the International Fuel Tax Agreement. The overall audit was initiated at the request of the DMV Director.

CONCLUSIONS

DMV needs to update its policy and procedures manual to include additional procedures for processing customer refunds and dishonored checks. Our review of supporting documentation for 93 customer refunds totaling approximately \$10,000 disclosed that none of the refunds had been entered into DESTINY,¹ and the majority had not been properly documented. Further, the records for 16 refunds were unavailable for review.

Also, a review of DMV records for dishonored checks indicated loss revenues in the amount of \$62,848, of which \$21,889 is attributed to a lack of customer record identifiers² written on checks and the acceptance of personal checks from individuals other than the registered vehicle owners. The remaining amount of \$40,959 is owed by one company and its affiliate. We noted that DMV has been unsuccessful in its attempts to collect on these checks totaling \$62,848.

The report also includes the results of three Management Alert Reports (MAR) issued to DMV during the course of the overall audit that required immediate attention to urgent audit issues. The issues addressed by the MARs centered on the potential health hazards due to the presence of asbestos at a DMV location (MAR No. 04-A-11), controls over negotiable instruments (MAR No. 04-A-12), and loss revenue due to dishonored checks (MAR No. 04-A-13). MAR No. 04-A-13 is summarized in the body of this report, and the remaining two MARs are summarized at Exhibit B.

¹ DESTINY is the data management system used by DMV that provides driver licensing, business licensing, and vehicle registration functions.

² Identifiers, such as a driver's license number, tag number, or transaction identification, are used to locate a customer's record in DESTINY, in the event the record cannot be retrieved by an individual's name.

EXECUTIVE DIGEST

SUMMARY OF RECOMMENDATIONS

We directed eight recommendations to the DMV Director that we believe should improve the operations of the agency. The recommendations center, in part, on:

- Develop and implement additional written policies and procedures for processing customer refunds.
- Require that DMV employees maintain adequate supporting documentation to justify processing customer refunds.
- Obtain all available documentation for the 16 unaccounted for refund requests for review by the Office of the Inspector General at a later date.
- Modify DESTINY to enable systematic processing of customer refunds.
- Create a memorandum of understanding between DMV and the Office of the Chief Financial Officer (OCFO) to govern the relationship and responsibilities of OCFO for processing customer refunds.
- Schedule formal training for DMV employees responsible for processing customer refunds that addresses providing customer service, documenting refund transactions, and processing and recording refunds.
- Require that employees write customer record identifiers, such as a driver's license number, title number, transaction identification, etc., on checks received for DMV services.
- Evaluate the merits of purchasing and implementing an automatic transaction validation system that systematically records an imprint of the transaction identification for tracking purposes.

MANAGEMENT ACTIONS

On January 18, 2005, DMV provided a response to a draft of this report. We consider actions taken and/or planned by DMV to be responsive to the recommendations. The full text of DMV's response is included at Exhibit J.

A summary of potential benefits resulting from the audit is shown at Exhibit A.

INTRODUCTION

BACKGROUND

The mission of the Department of Motor Vehicles (DMV) is to develop, administer, and enforce the District's vehicular laws and regulations for District of Columbia residents and non-residents to ensure public safety through the safe operation of motor vehicles. DMV also provides District residents and non-residents with various services related to driver and business licensing and vehicle registration functions. DMV is responsible for services related to 340,000 licensed drivers and 246,000 registered vehicles in the District. The fiscal year (FY) 2004 operating budget was \$39.6 million for 368 full time employees.

The primary functions of DMV's major organizational components are to plan, program, operate, manage, control and maintain systems, processes and programs that ensure the safe and efficient movement of people in the operation of vehicles within the District of Columbia. The three major organizational components - Adjudication, Customer, and Administrative Services - assist in the achievement of DMV's mission. The primary services include: (1) issuance of commercial and non-commercial driver's licenses; (2) titling, registering, and inspecting vehicles and trailers; (3) ticket and various fee collections; and (4) adjudication of DMV disputes.

DMV issues and processes over 2.2 million tickets annually, in addition to conducting about 190,000 scheduled and unscheduled adjudication hearings pertaining to traffic tickets. In FY 2004, DMV expected to collect over \$165 million in revenues, with over 50 percent of its revenues generated from traffic tickets. During FY 2000 through 2003, DMV processed an average of 843 customer refunds per year averaging \$72,000³ annually. In FY 2003, DMV received 2,352 dishonored checks amounting to approximately \$490,000.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of the audit were to determine whether DMV, in relation to its operations: (1) established adequate operating regulations, procedures, and guidelines; (2) complied with applicable laws and regulations; (3) operated in an effective and efficient manner; and (4) implemented adequate internal controls to safeguard against fraud, waste, and mismanagement. Our specific objectives in this segment of the overall audit were to determine the adequacy of procedures and controls for customer refunds and the collection of revenue and related fees for dishonored checks.

³ The average of \$72,000 in customer refunds per year was derived by dividing the total refunds for fiscal years 2000 – 2003 (\$288,794) by 4.

INTRODUCTION

To accomplish our audit objectives, we obtained and reviewed written policies and procedures on agency operations, as well as relevant laws and regulations. We also held interviews, meetings, and discussions with officials from DMV, the Office of Finance and Treasury (OFT), the Department of Public Works (DPW), and the Office of the Chief Financial Officer. In addition, we reviewed available supporting documentation for customer refunds and dishonored checks, files, reports, and customer records. Further, we examined management controls and observed the daily operations and various processes of several DMV employees. We also reviewed the policy and procedures manual for DESTINY, as well as transaction records specifically related to customer refunds and dishonored checks.

We relied on computer-processed data from DESTINY to provide us with supporting documentation of detailed transactions for customer refunds and dishonored checks. We determined that customer refunds and dishonored checks reviewed by us generally agreed with the information in the computer-processed data.

The overall audit primarily covered fiscal years 2000 through 2003, was conducted in accordance with generally accepted government auditing standards, and included such tests as we considered necessary under the circumstances.

FINDING AND RECOMMENDATIONS

FINDING: PROCESSING CUSTOMER REFUNDS AND DISHONORED CHECKS

SYNOPSIS

Our review of 93 customer refunds, totaling approximately \$10,000 that had been processed during February 2004 to April 2004, disclosed that none of the refunds had been entered into DESTINY. Additionally, 46 refunds had not been properly documented, 31 requests had insufficient supporting documentation, and DMV could not account for 16 refunds. Also, a review of DMV records for dishonored checks indicated loss revenues in the amount of \$62,848, of which \$21,889 was due in part to DMV not using customer record identifiers on checks and the acceptance of personal checks from individuals other than the registered vehicle owners. The remaining amount of \$40,959 is owed by one company and its affiliate. We noted that DMV has been unsuccessful in its attempts to collect the amount due from this company.

Part of the cause for these conditions was due to a lack of adequate policies and procedures and proper training of employees for processing customer refunds. Further, insufficient supervisory review over dishonored checks hindered the collection of revenue for dishonored checks. As a result, customer refunds were processed by DMV employees without proper justification to support each refund.

DISCUSSION

DMV customers can request a refund for various reasons, to include overpayment of excise taxes; duplicate payments; incorrect payment for services, and premature payment for registration fees where there is at least 1 year remaining prior to the 2-year expiration date. During our overall review of DMV operations, we discovered that additional policies and procedures for processing customer refunds need to be developed. In particular, we noted that DMV had not maintained sufficient documentation to support customer refunds. We also noted that DMV accepted many checks that did not include customer record identifiers, making it difficult to trace dishonored checks. These matters are discussed in more detail below.

DMV Procedures for Processing Customer Refunds. DMV maintains a record of all transactions involving customer refunds in a refund log. The log includes the customer's name, address, and refund amount. DMV's refund process is as follows: (1) customer completes a refund request form; (2) DMV obtains required documents from the customer and records the refund in the refund log; and (3) DMV prepares a batch of refunds and submits the refunds to the Department of Public Works Office of the Chief Financial Officer (DPW/OCFO) for additional processing.

FINDING AND RECOMMENDATIONS

Upon receipt of the refunds, DPW's refund process is as follows: (1) DPW reviews the refunds for completeness and accuracy; (2) data are entered into the System of Accounting and Reporting (SOAR); and (3) after final approval by the cost accounting manager, the refunds are sent to the District of Columbia Office of Finance and Treasury (OFT) for the refund check to be issued to the customer.

According to the Director of DMV, a memorandum of understanding had not been executed between DMV and DPW/OCFO to address the responsibilities of DPW/OCFO for processing customer refunds. DMV and DPW/OCFO are separate agencies, thus an MOU would be necessary to provide guidelines for the handling and processing of refunds and to set forth general terms and conditions under which refunds will be paid to customers. We noted that DESTINY was not used to systematically process refunds.

Processing Refunds in DESTINY. Although there are written procedures in the DESTINY policy and procedures manual for entering refunds, DESTINY did not have the capability to process customer refunds. This was confirmed by DMV employees and noted during our review of the supporting documentation for refunds. DMV forwards approved refund requests to DPW for payment processing. We believe DMV needs to develop the capability in DESTINY to process customer refunds, consistent with DESTINY's policies and procedures.

Documentation for Customer Refunds. During fiscal years 2000 to 2003, DMV processed \$288,794 in customer refunds (\$49,335, \$51,932, \$87,672, and \$99,855, respectively). Our review of refund records disclosed that although DMV kept a refund log that detailed customer names, addresses, and refund amounts, no additional documentation was maintained.

Specifically, DMV records did not include all of the necessary documents to substantiate processing the refunds, such as refund request forms, receipts for services rendered, copies of canceled checks, and documents to show duplicate payments. DMV admitted that sufficient records to support customer refunds had not been maintained at DMV prior to February 2004.

As a result of our review, DMV implemented informal (unwritten) procedures for maintaining supporting documentation for customer refunds, which consisted of filing the paperwork obtained from customers who submitted a request.

We reviewed 93 refund requests submitted during February 2004 to April 2004, and found that 46 requests (49 percent) had questionable and/or missing documents. Questionable refund requests represent refunds that were erroneously processed for incorrect amounts or that were approved by a supervisor for amounts that were not supported by the documentation. This category also included refunds processed by a DMV employee other

FINDING AND RECOMMENDATIONS

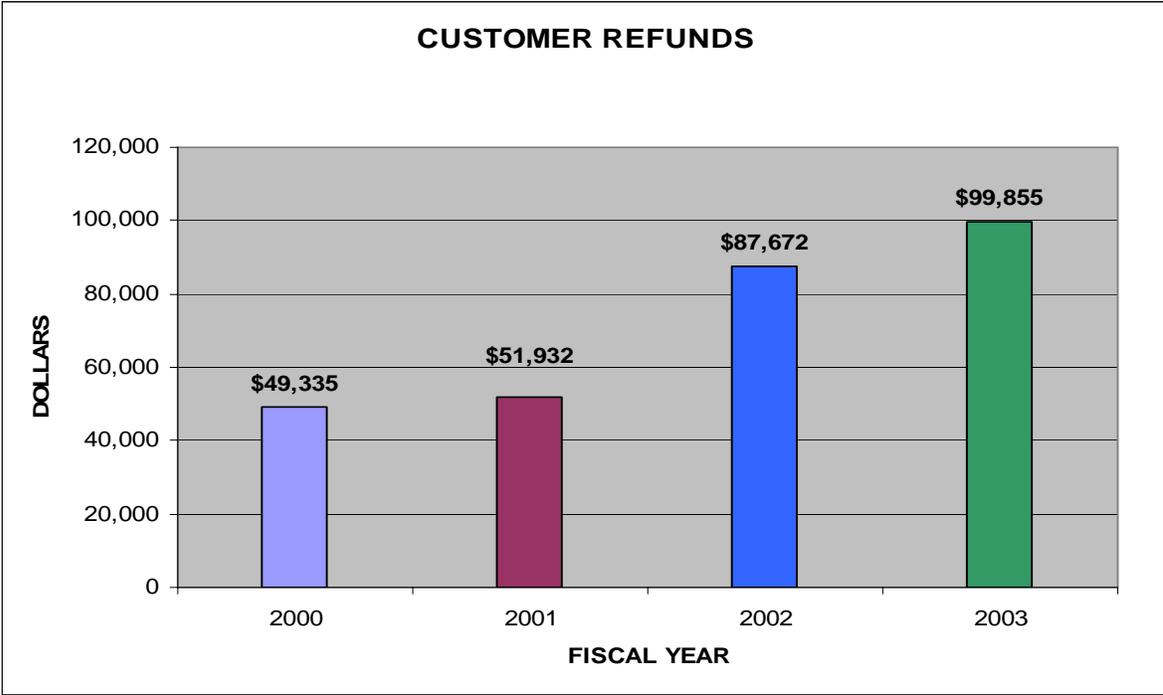
than the DMV employees responsible for this duty. We found that 31 requests (33 percent) had sufficient supporting documents to justify processing the refunds. Finally, the records for 16 requests (17 percent) were unavailable for review. A detailed schedule of DMV's refund requests is shown at Exhibit C.

Refund Policies

Although DMV has written policies in the DESTINY user manual for entering refunds, DMV has no policies and procedures regarding the steps necessary for obtaining required documents, maintaining refund records, and obtaining supervisory approval. Written policies and procedures are necessary to ensure consistency and uniformity in processing these types of transactions.

Table 1 shows a continuous increase in customer refunds each year. In the absence of adequate written policies, procedures, and internal controls for processing refunds, DMV is at risk for potential fraud, mismanagement, errors, and duplicate refunds.

Table 1. Comparison of Refunds by Fiscal Year



FINDING AND RECOMMENDATIONS

Timeliness of Customer Refunds. DPW/OCFO is responsible for the final review and approval of refund requests and data entry into SOAR. DPW/OCFO forwards the requests to OFT for check dissemination. However, we noted that many of the refund requests were not sent to DPW/OCFO in a timely manner. DMV stated that there were instances when refunds had not been forwarded to DPW/OCFO before 30 days had elapsed. According to DPW/OCFO, the average time for a customer to receive a refund is 4 to 6 weeks from the time the refund is requested. We noted that 30 out of 93 refund requests reviewed were sent to DPW/OCFO within 5 to 21 days, 47 refund requests had no record of the dates the requests were sent to DPW/OCFO for further processing, and the records for 16 refund requests were unavailable for review.

In addition, we also noted that the motor vehicle services clerks responsible for handling refunds received no formal training. We believe that the clerks should receive applicable training on handling customer refunds. The OCFO Financial Policies and Procedures Manual Section 4000.000, Paragraph A.2, Commitment to Competence of the Financial Policies and Procedures Manual states, “[m]anagement must specify the level of competence needed for particular jobs and translate the desired levels of competence into requisite knowledge and skills.”

Summary of Management Alert Report

We issued a management alert report (MAR No. 04-A-13) to DMV on April 9, 2004, which addressed a loss of revenue due to dishonored checks and related fees. The purpose of the report was to alert management of urgent audit issues that required its attention. The MAR can be reviewed in its entirety at Exhibit H. A summary of the MAR is discussed below.

Loss of Revenue Due to Dishonored Checks and Related Fees (MAR No. 04-A-13).

DMV received 2,352 dishonored checks totaling \$490,629 during fiscal year 2003 for DMV products or services. In addition to this loss of revenue, we estimated that DMV had not collected revenue for the dishonored checks fees totaling approximately \$152,880.

In MAR No. 04-A-13, we recommended that the Director, DMV: (1) establish and implement written policies and procedures to ensure that dishonored checks were processed accurately, timely, and efficiently; (2) implement collection procedures to collect on dishonored checks and related fees and mandate that actions be taken to recover funds; and (3) develop and implement controls for monitoring and tracking dishonored checks.

Management Response. In response to the recommendations, DMV stated the following: (1) DMV’s anticipated date for completion of the dishonored check policies and procedures and necessary training was June 25, 2004; (2) DMV revised the dishonored check letter and established procedures to follow-up on customers who fail to comply; and (3) DESTINY programmers would create a management report that addresses the requirements for

FINDING AND RECOMMENDATIONS

implementing the OIG's recommendations, which would be provided to DMV management by June 25, 2004. The full text of the MAR is shown at Exhibit H and DMV's response is shown at Exhibit I.

Collection of Dishonored Checks. We performed additional audit work on the issue of dishonored checks and found other deficiencies not addressed in the MAR. Our review of DMV records for dishonored checks indicated loss revenues in the amount of \$62,848, of which \$21,889 was attributed to an inconsistent application of customer record identifiers on checks, a lack of supervisory review of the checks, and the acceptance of checks from individuals other than the registered vehicle owners. However, DMV has informed us that corrective action has been taken to discontinue accepting checks from anyone other than registered vehicle owners. The remaining amount of \$40,959 is owed by one company and its affiliate and covers the period between August 2001 and March 2004. DMV does not maintain a record of dishonored checks in DESTINY to notify DMV employees of a dishonored check history.

We noted that DMV has been unsuccessful in its attempts to collect the outstanding balance attributable to dishonored checks. In order to decrease the risk of continued loss in revenue, DMV must improve its procedures for collecting dishonored checks and related fees. We believe that an automatic transaction validation system that systematically records an imprint of the transaction identification or other type of identifier would enhance the procedures currently in use.

Applicable Laws, Regulations, Policies, and Procedures. Title 18 District of Columbia Municipal Regulations (DCMR), Vehicles and Traffic, provides regulations that govern DMV's operations, services, safety, procedures, and adjudication process. Specifically, 18 DCMR § 1104.6 (2004) states that no services or products of the Department shall be rendered until the fees and collection charges related to dishonored checks have been paid.

D.C. Code § 1-333.11 (2001) requires that the Mayor "shall . . . impose . . . penalties . . . and a fee to be paid by [any] person who gives . . . a check to the government of the District of Columbia, a check which is subsequently dishonored or not duly paid." It also states that "[a]ny receipt previously given in reliance upon such check shall be void, and no other receipt shall be given for the payment of the original amount due until the fee has also been paid." *Id.*

RECOMMENDATIONS

We recommended that the Director, DMV:

1. Develop and implement written policies, procedures, and internal controls for processing customer refunds.

FINDING AND RECOMMENDATIONS

2. Require that DMV maintain all supporting documentation to justify processing customer refunds.
3. Obtain all available documentation for the 16 unaccounted for refund requests for a review by the Office of the Inspector General at a later date.
4. Modify DESTINY to enable systematic processing of customer refunds.
5. Create a memorandum of understanding between DMV and DPW/OCFO to govern the relationship and responsibilities of DPW/OCFO for processing customer refunds.
6. Schedule formal training for DMV employees responsible for processing customer refunds that addresses customer service, documenting refund transactions, and processing and recording refunds.
7. Require employees to write customer record identifiers, such as a driver's license number, title number, transaction identification, etc., on checks received for DMV services.
8. Evaluate the merits of purchasing an automatic transaction validation system that automatically records an imprint of the transaction identification for tracking purposes.

OIG COMMENT (Recommendations 1-8)

DMV's corrective actions are responsive and meet the intent of the recommendations. The full text of DMV's response is included at Exhibit J.

SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation	Description of Benefit	Amount and Type of Benefit	Status⁴
1	Efficiency and Internal Control. Develops internal controls to prevent and detect errors and duplicates.	Non Monetary	Open
2	Efficiency and Internal Control. Requires supporting documentation to provide an adequate audit trail.	Non monetary	Closed
3	Economy and Efficiency. Promotes accountability by acquiring supporting documentation.	Non monetary	Open
4	Efficiency and Internal Control. Develops internal controls to prevent and detect errors and duplicates.	Non monetary	Open
5	Program Results. Outlines the agencies' relationship and responsibilities for processing refunds.	Non monetary	Open
6	Program Results. Improves the efficiency of the program.	Non monetary	Closed
7	Economy and Efficiency and Program Results. Requires employees to record customer record identifiers to account for/track on the checks received.	\$62,848	Closed
8	Economy and Efficiency. Implements an automatic transaction validation system that systematically records an imprint of the transaction identification for tracking purposes.	Non monetary	Open

⁴ This column provides the status of a recommendation as of the report date. For final reports, “Open” means Management and the OIG are in agreement on the action to be taken, but action is not complete. “Closed” means management has advised that the action necessary to correct the condition is complete. “Unresolved” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

EXHIBIT A

SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation	Description of Benefit	Amount and Type of Benefit	Status
MAR 04-A-11 1	Health and Safety. Identifies any potential concerns for asbestos.	Non monetary	Closed
2	Health and Safety. Protects employees and the public from potential health hazards.	Non monetary	Closed
MAR 04-A-12 1	Economy and Efficiency and Internal Control. Ensures daily reconciliations are conducted.	Non monetary	Closed
2 and 3	Economy and Efficiency and Internal Control. Provides increased security for handling and transporting negotiable instruments.	Non Monetary	Closed
4	Economy and Efficiency. Promotes accountability and consistency for handling and processing negotiable instruments.	Non monetary	Closed
5	Economy and Efficiency. Recovers potential revenue due the District of Columbia.	Undeterminable	Closed

EXHIBIT A

SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation	Description of Benefit	Amount and Type of Benefit	Status
MAR 04-A-13 1	Efficiency and Internal Control. Ensures consistency and uniformity in the processing of transactions.	Non monetary	Open
2	Economy and Efficiency. Recovers potential revenue due the District of Columbia.	\$524,172	Closed
3	Economy and Efficiency and Internal Control. Tracks and monitors dishonored check activity.	Non monetary	Open

SUMMARY OF MANAGEMENT ALERT REPORTS

During the course of the overall audit, we issued three Management Alert Reports (MAR) in order to solicit management's attention to urgent audit issues. The MARs addressed Potential Health Hazards (MAR No. 04-A-11 issued on March 22, 2004); Controls over Negotiable Instruments (MAR No. 04-A-12 issued on March 24, 2004); and Loss of Revenue Due to Dishonored Checks and Related Fees (MAR No. 04-A-13 issued on April 9, 2004). The MAR on dishonored checks is discussed in the finding and recommendations section of the report. A summary of MAR No. 04-A-11 and MAR No. 04-A-12 is provided below.

Potential Health Hazards (MAR No. 04-A-11). During the audit, concerns of asbestos in a room regularly accessed by the Department of Motor Vehicles (DMV) employees that adjoins another room used to serve the public were brought to our attention. We observed the room in question and detected peeling paint and evidence of water damage. We discussed this matter with officials of DMV, the Office of Property Management, and the Office of the City Administrator, Office of Risk Management. Although we had no conclusive evidence that asbestos was present, we were unable to conclude that this potential health hazard had been adequately resolved to ensure the safety of DMV employees and its customers.

In MAR 04-A-11, we recommended that the Director, DMV: (1) request the appropriate District agency to test the rooms in question for asbestos contamination, dampness, mold, and air quality; and (2) restrict all employees and block public access from the area(s) in question until test results are obtained and any needed corrective actions are taken.

Management Response. DMV responded to the recommendations by stating that: (1) a letter had been written to the Director, Department of Property Management to request that the rooms be tested for all potential health risks listed in the MAR; and (2) staff had been relocated from one of the rooms in question, however, the second room continued to be accessed by employees in order to reach their work areas. The full text of the MAR is shown at Exhibit D and DMV's response is shown at Exhibit E.

Controls Over Negotiable Instruments (MAR No. 04-A-12). During the course of the audit work, we discovered DMV did not have sufficient controls to ensure that payments received for DMV services and/or fees were properly deposited into the District's Treasury. Specifically, we noted deficiencies in internal controls for depositing checks and in the transporting and processing of payments received. The two issues are briefly discussed below.

Controls over Check Deposits. DMV supervisors did not verify that total daily collections had been reconciled to DESTINY totals before transferring checks and other supporting documents to the Office of Finance and Treasury (OFT). DMV also had not deposited 116 checks and money orders totaling \$83,724 received for payment of DMV services from

SUMMARY OF MANAGEMENT ALERT REPORTS

September 2002 through December 2003. Finally, we discovered that payments received by DMV had not been properly safeguarded against loss or theft.

Security for Payments Received. Payments and supporting documents had been collected from five satellite locations by a DMV employee, who was not bonded or provided security while transporting negotiable instruments (the payments totaled as much as \$100,000 daily). Also, the room in which the negotiable instruments and daily paperwork were stored had not been adequately secured.

In MAR No. 04-A-12, we recommended that the Director, DMV: (1) establish controls that ensure that cashiers and supervisors conduct reconciliations to DESTINY reports and the District's financial records of daily collections; (2) strengthen controls over the transportation of checks and other negotiable instruments; (3) strengthen controls over the handling of checks, cash, and other negotiable instruments; (4) establish procedures that require a chain of custody within DMV for the handling, transportation, and processing of negotiable instruments; and (5) determine whether undeposited checks have been placed in storage and take action, as needed, to recover any amounts due the District.

Management Response. DMV responded positively to the recommendations and stated that: (1) reconciliations are being performed; (2) an agreement exists between DMV and the OFT to provide a daily pick-up by a bonded transportation company for cash payments; (3) DMV is in the process of purchasing a safe for negotiable instruments; (4) procedures had been established that outline a chain of custody for the handling and processing of checks and money orders; and (5) DMV and Office of the Chief Financial Officer personnel converged on the storage area to recover all checks and money orders that may have been stored inadvertently. The full text of the MAR is shown at Exhibit F and DMV's response is shown at Exhibit G.

SCHEDULE OF DMV REFUND REQUESTS

AC No. (Refund No.)	Refund Amount	Refund Date	Supporting Documentation Available
AC6798	39.00	February 28, 2004	Yes
AC6799	30.00	February 28, 2004	Yes
AC6800	20.00	February 21, 2004	Yes
AC6801	52.00	(A)	No
AC6802	77.50	(A)	No
AC6803	87.00	(A)	No
AC6804	78.00	(B)	No
AC6805	87.00	February 17, 2004	Yes
AC6806	169.00	February 26, 2004	Yes
AC6807	97.00	February 26, 2004	No
AC6808	72.00	February 26, 2004	No
AC6809	55.00	February 21, 2004	Yes
AC6810	72.00	February 20, 2004	Yes
AC6811	140.00	February 21, 2004	Yes
AC6812	155.00	February 24, 2004	Yes
AC6813	82.00	March 4, 2004	No
AC6814	115.00	March 4, 2004	Yes
AC6815	112.00	March 4, 2004	No
AC6816	87.00	March 4, 2004	Yes
AC6817	65.00	March 4, 2004	Yes

LEGEND:

(A) - indicates no refund request form (i.e., the form was not available, the request was made internally, mailed-in, or faxed)

(B) - indicates the refund date was not listed

SCHEDULE OF DMV REFUND REQUESTS

AC No. (Refund No.)	Refund Amount	Refund Date	Supporting Documentation Available
AC6818	72.00	March 4, 2004	No
AC6819	87.00	(B)	No
AC6820	72.00	March 5, 2004	Yes
AC6821	72.00	March 3, 2004	Yes
AC6822	72.00	(B)	No
AC6823	78.00	March 10, 2004	No
AC6824	144.00	March 10, 2004	No
AC6825	112.00	March 10, 2004	No
AC6826	20.00	March 6, 2004	No
AC6827	115.00	March 9, 2004	No
AC6828	no record	no record	no record
AC6829	no record	no record	no record
AC6830	no record	no record	no record
AC6831	no record	no record	no record
AC6832	no record	no record	no record
AC6833	no record	no record	no record
AC6834	no record	no record	no record
AC6835	no record	no record	no record
AC6836	no record	no record	no record
AC6837	no record	no record	no record
AC6838	no record	no record	no record
AC6839	no record	no record	no record
AC6840	no record	no record	no record
AC6841	no record	no record	no record
AC6842	no record	no record	no record

SCHEDULE OF DMV REFUND REQUESTS

AC No. (Refund No.)	Refund Amount	Refund Date	Supporting Documentation Available
AC6843	67.50	(A)	No
AC6844	78.00	(A)	No
AC6845	391.50	March 16, 2004	No
AC6846	87.00	March 16, 2004	Yes
AC6847	130.00	February 6, 2004	No
AC6848	87.00	March 13, 2004	Yes
AC6849	65.00	March 13, 2004	Yes
AC6850	87.00	March 13, 2004	Yes
AC6851	72.00	March 18, 2004	Yes
Not Listed	87.00	March 17, 2004	No
AC6853	1,204.70	March 23, 2004	No
AC6854	87.00	March 23, 2004	Yes
AC6855	87.00	March 23, 2004	Yes
AC6856	72.00	March 23, 2004	No
AC6857	55.00	March 23, 2004	No
AC6858	6.00	(A)	Yes
AC6859	396.69	(A)	Yes
AC6860	112.00	March 17, 2004	No
AC6861	112.00	March 20, 2004	Yes
AC6862	72.00	March 25, 2004	Yes
AC6863	72.00	(A)	No
AC6864	72.00	March 19, 2004	No
AC6865	78.00	(A)	No
AC6866	25.00	March 25, 2004	No
AC6867	843.00	(A)	No

SCHEDULE OF DMV REFUND REQUESTS

AC No. (Refund No.)	Refund Amount	Refund Date	Supporting Documentation Available
AC6868	98.00	(A)	No
AC6869	87.00	March 25, 2004	Yes
AC6870	72.00	March 26, 2004	Yes
AC6871	55.00	March 25, 2004	Yes
AC6872	87.00	March 26, 2004	No
AC6873	87.00	March 26, 2004	Yes
AC6874	153.50	(A)	No
AC6875	252.00	(A)	No
AC6876	72.00	(A)	No
AC6877	72.00	March 30, 2004	No
AC6878	87.00	March 30, 2004	Yes
AC6879	144.00	March 30, 2004	Yes
AC6880	15.00	March 30, 2004	No
AC6881	39.00	March 27, 2004	No
AC6882	72.00	March 31, 2004	No
AC6883	26.00	(A)	No
AC6884	718.50	(A)	No
AC6885	no record	no record	no record
AC6886	40.00	March 30, 2004	No
AC6887	26.00	March 27, 2004	No
AC6888	72.00	March 31, 2004	No
AC6889	358.00	(A)	No
AC6890	52.00	April 1, 2004	No
TOTAL	\$9,666.89		

SCHEDULE OF DMV REFUND REQUESTS

Summary of Records:

	<u>Number</u>	<u>Percent</u>
Missing or Questionable Documentation	46	49.5%
Sufficient Documentation	31	33.3%
Records Unavailable for Review	<u>16</u>	<u>17.2%</u>
Total	93	100%

POTENTIAL HEALTH HAZARDS

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 22, 2004

Anne C. Witt
Director
Department of Motor Vehicles
301 C Street, N.W., Room 1018
Washington, D.C. 20001

Subject: Potential Health Hazards at the Department of Motor Vehicles (DMV)

Dear Ms. Witt:

The purpose of this Management Alert Report (MAR No. 04-A-11) is to inform you of a potential health and safety issue identified during our ongoing Audit of the Department of Motor Vehicles (OIG No. 04-2-07KV) that requires your immediate attention. During our audit, concerns of asbestos in a room routinely accessed by DMV employees were brought to our attention. This room adjoins another room used to serve the public. Although we have no conclusive evidence that asbestos is present, we have been unable to conclude with reasonable certainty that this potential health hazard has been adequately resolved to ensure the proper safeguard of DMV employees and its customers. As a result, we are issuing this MAR, which describes our concerns and provides our recommendations for corrective actions.

DISCUSSION

DMV transaction records are currently stored in Room 1036, 301 C Street, N.W. We observed that this room had peeling paint and evidence of water damage. When we questioned employees about the room, they stated the room was used only for storage purposes because of asbestos concerns. DMV officials confirmed employees were moved from the room because of asbestos concerns. DMV officials also informed us that the room is now used as a storage area for documents waiting to be copied to microfiche. However, we observed that Room 1036 is still routinely accessed by DMV employees and adjoins another room that is used to serve the public. The opening connecting the 2 rooms measures approximately 6 feet by 7 feet and could allow airborne pathogens, if any, to flow into the adjacent public room, posing a hazard for employees and the public.

When asked, DMV officials stated that Room 1036 had not been tested for asbestos. Accordingly, we contacted the Office of Property Management's building engineer responsible for this building to discuss the asbestos concern. Building engineer personnel

POTENTIAL HEALTH HAZARDS

Anne C. Witt, Director, DMV
MAR No. 04-A-11
March 22, 2004
Page 2 of 3

stated that they were aware of rooms that needed repainting but had no knowledge of asbestos contamination in the building. Building engineer personnel also stated that they were unaware of any asbestos contamination testing conducted in the building.

Further inquiries revealed that the Office of the City Administrator's Office of Risk Management, the agency responsible for asbestos concerns in District government buildings, received a complaint in July of 2003. This complaint stated that people were getting sick; walls had terrible mildew stains¹; and Room 1038 of the DMV facilities located at 301 C Street, N.W. had peeling paint and odor problems. Room 1038 is connected to Room 1036 by double doors. Building engineers concluded that the peeling paint was not lead based and resolved this complaint by unstopping drains in the air handlers.

We also contacted officials from the DOH Lead Based Paint Inspection Program regarding the peeling paint concern. DOH officials stated that they had not received any lead-based paint complaints for any rooms located in the building at 301 C Street, N.W.

On March 5, 2004, we discussed the issues contained in this MAR with you and obtained your understanding of the situation. You advised us that there are enduring rumors that the building contains asbestos, and that you and the Director of the Office of Property Management were both cognizant of the rumors. As a result of these concerns, DMV employees have been moved from Room 1036. You also stated that there are plans for the building to be demolished in 2006.

Although we were unable to substantiate the asbestos allegations, we believe that DMV should take more aggressive action to identify the nature and extent of this potential health risk at DMV facilities and take immediate action to alleviate any hazard that may be identified.

RECOMMENDATIONS

We recommend that the Director, DMV:

1. Request the appropriate District agency test the rooms in question for asbestos contamination, dampness, mold, and air quality and, if applicable, take immediate action to correct any potential health risks.
2. Restrict all employees and block public access from the area(s) in question until test results are obtained and any needed corrective actions are taken.

¹ We noted that in a March 3, 2003, Health Advisory, D.C. Department of Health (DOH) officials stated, "A wet building encourages the growth of mold . . . which may cause exposed persons to develop certain health problems; additionally, inhaling or touching mold or mold spores can trigger allergic reactions, asthma, skin rash, and other problems."

POTENTIAL HEALTH HAZARDS

Anne C. Witt, Director, DMV
MAR No. 04-A-11
March 22, 2004
Page 3 of 3

CLOSING

Please provide your response to these recommendations by March 31, 2004. Your response should include actions taken or planned, target dates for completion of planned actions, and reasons for any disagreements with the issues and recommendations. You may suggest alternative actions that would resolve the conditions disclosed in this report. **Our intention is to limit distribution of this Management Alert Report until comments are received. Therefore, please circulate it only to those personnel who will be directly involved in preparing your response.**

Should you have questions concerning this report or desire a conference before preparing your response, please call William J. DiVello, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,



Austin A. Andersen
Interim Inspector General

AAA/ws

cc: Mr. Robert C. Bobb, City Administrator
Mr. Herbert R. Tillery, Deputy Mayor for Operations
Mr. Ben Lorigo, Executive Director, Office of Integrity and Oversight, OCFO

DMV RESPONSE TO MAR No. 04-A-11

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF MOTOR VEHICLES



OFFICE OF THE DIRECTOR
MEMORANDUM

TO: Austin A. Anderson
Interim Inspector General

FROM: Anne Witt
Director

DATE: 31 March 2004

SUBJECT: Steps DMV Will Take to Assess Environmental Risks, Rms. 1036 & 1038
Per Management Alert Report (MAR) No. 04-A-11

As you know, I appreciate the comprehensive review of the Department of Motor Vehicles that you have undertaken at my request. I concur with the recommendations in Management Alert Report (MAR) No. 04-A-11 dated March 22. We agree that Room 1036 and 1038, 301 C Street, N.W., are in poor condition and that there is a need to investigate allegations and staff concerns that the rooms may be contaminated by asbestos or other substances. These concerns prompted us to convert Room 1036 to storage last summer. We have established the following action plan to address the two recommendations in MAR 04-A-11:

1. Request the appropriate District agency test the rooms in question for asbestos contamination, dampness, mold, and air quality and, if applicable, take immediate action to correct any potential health risks.

I have discussed these problems with Carol Mitten, Director, Department of Property Management. I have also written to her requesting that the rooms be tested for all potential health risks listed in the MAR.

2. Restrict all employees and block public access from the area(s) in question until test results are obtained and any needed corrective actions are taken.

As you know, staff have been relocated and Room 1036 has been restricted to the storage of inactive files, awaiting archive imagine or disposal. Staff will not need to work with these files during the testing period. However, employees working in Room 1034 currently have to access their work area through Room 1036 because of the way customer service counters in 1034 are constructed. My memo to Carol Mitten also asks her to take steps to create an opening through the counter in Room 1036 so that employees can enter

DMV RESPONSE TO MAR No. 04-A-11

their work area within Room 1036 and to install a locked door to close off access to Room 1034 from Room 1036, in the event testing results cannot be obtained swiftly, or if required by any findings and necessary remedial action.

OPM and DMV recognize that either or both of the above steps will require initial planning and procurement efforts. We are coordinating to have a specific action plan in place not later than April 9 in order to conclude necessary actions by April 30. We will inform you of the outcomes of that effort and any modifications and their reasons, should they be necessary.

Providing a safe environment for employees and the public is top priority. I assure you that we will address these concerns as quickly as possible, and will keep you fully informed of our progress. If you require any further information or discussion, please call me at 724-2034 or anne.witt@dc.gov.

Thank you.

Attachment

cc: William Howland, DMO
Carol Mitten, OPM
Joe Wolfe, OPM
Lucinda Babers, DMV
Joan Saleh, DMV

CONTROLS OVER NEGOTIABLE INSTRUMENTS

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 24, 2004

Anne C. Witt
Director
Department of Motor Vehicles
301 C Street, N.W., Room 1018
Washington, D.C. 20001

Subject: Controls over Negotiable Instruments at the Department of Motor Vehicles (DMV)

Dear Ms. Witt:

The purpose of this Management Alert Report (MAR No. 04-A-12) is to inform you of a potential risk of financial loss and a security issue that were identified during our ongoing Audit of the Department of Motor Vehicles (OIG No. 04-2-07KV) that requires your immediate attention. During the course of audit work, we noted DMV did not have sufficient controls to ensure that payments received for DMV services and/or fees were properly deposited into the District's Treasury. Specifically, we noted that DMV had not deposited over \$83,000 of payments received during the period of March 2002 through December 2003. Additionally, we found that payments received by DMV are not properly safeguarded against loss or theft. As a result, we are issuing this MAR, which describes the issues and provides recommendations for corrective actions.

DISCUSSION

The DMV's primary services include: (1) issuance of commercial and non-commercial driver's licenses; (2) titling, registration, and inspections of motor vehicles and trailers; (3) ticket and fee collections; and (4) adjudication of DMV disputes. DMV has five service centers that handle collections for vehicle registration, licensing, inspections, and tickets. DMV cashiers process daily as many as 2,000 transactions, totaling over \$300,000 (performed by as many as 98 employees). Over \$200,000 of the daily collections received are in the form of a check or cash, and the remainder is in the form of credit card payments.

CONTROLS OVER THE DEPOSITING OF CHECKS NEED IMPROVEMENT

Previous reviews of DMV operations showed that DMV had not always deposited checks received for payment of vehicle services and/or fees. Our current review shows that checks were not deposited because cashiers were not diligent in removing checks from the paperwork, and procedures do not provide for separate reconciliations of checks, cash, and

CONTROLS OVER NEGOTIABLE INSTRUMENTS

Anne C. Witt, Director, DMV
MAR No. 04-A-12
March 24, 2004
Page 2 of 4

credit card payments to information about daily receipts in DESTINY¹. As a result, checks were improperly filed with the paperwork. Supervisors, in turn, were lax in monitoring the work of the cashiers and in performing independent reconciliations of monies received, which allowed the checks to remain attached to the paperwork and undeposited for, in some cases, nearly 2 years. Without reconciliation to DESTINY, no one would be aware that deposits were less than they should have been.

In order to address the problem of undeposited checks, DMV implemented procedures in November of 2003, requiring cashiers to reconcile payments received daily to DESTINY reports. Our review found that implementation of the new guidance was inadequate. Cashiers did not total the checks and other collections independent of DESTINY information, and thus, no reconciliation of actual amounts prepared for deposit to amounts shown in DESTINY occurred. Specifically, cashiers are required to reconcile payments received to balances in DESTINY before submitting their drawer contents to supervisors for second-level verification. While cashiers may be verifying totals of negotiable instruments processed, they are not running a separate adding machine tape of the negotiable instruments or using some other method to verify that all monies received according to DESTINY information are accounted for and turned over to their supervisors.

We additionally found that DMV supervisors are not verifying that total daily collections are reconciled to amounts recorded in DESTINY before transferring the checks and other supporting documents to the Office of Finance and Treasury. This point of transfer is the last opportunity for officials to detect errors timely yet management controls remain inadequate. In addition, unnecessary traffic in and out of the room where reconciliations are performed is disruptive of the reconciliation process.

Auditors identified 116 checks and/or money orders, totaling \$83,724.08, received for payment of DMV services during the 22-month period (March 2002 through December 2003) that were not deposited. These checks were found attached to receipts for DMV services and other supporting documents and filed in boxes at the DMV offices. These boxes remain at DMV until they can be moved off site for storage and copying². Due to the age of many of these payments, DMV has begun contacting the payees and requesting that they void the old payment and remit replacement payment. As of March 5, 2004, a total of \$45,928.28 of the undeposited checks has been collected.

SECURITY FOR PAYMENTS RECEIVED NEEDS IMPROVEMENT

We noted that there is a security risk in the transportation and processing of payments received. Specifically, we observed that payments and supporting documents are picked up at the five satellite locations by a DMV employee, who is not bonded and is not provided

¹ DESTINY is DMV's new motor vehicle computer information system that provides access to vehicle registration, vehicle inspection, driver's license, and ticket information.

² Based on what we have already found, the potential exists that additional undeposited checks were sent to storage in prior periods.

CONTROLS OVER NEGOTIABLE INSTRUMENTS

Anne C. Witt, Director, DMV
MAR No. 04-A-12
March 24, 2004
Page 3 of 4

security in the transportation of the payment instruments (checks and negotiable instruments totaling as much as \$100,000 daily). The courier and employees at the DMV main office that reconcile and process payments are also not signing for monies received.

In addition, checks and money orders are regularly left in open bins overnight in a room that is not protected by an operational alarm system. We also noted that the windows in the room are plain glass windows with no wire reinforcement, which would provide a second level of protection from unauthorized entry in the event the glass is broken. There are combination locks on the doors to the room, however, there is no record of who was given the combination, and more importantly, the combination is not changed when employees leave DMV or no longer have authority to access the room.

While the current reconciliation policy has improved, there remains a strong potential for fraud as well as errors. Additionally, there are security concerns that need to be addressed. In this regard, we are making recommendations that will help ensure that payments received by DMV are properly safeguarded against loss or theft.

RECOMMENDATION

We recommend that the Director, DMV:

1. Establish controls that ensure that cashiers and supervisors conduct reconciliations to DESTINY reports and the District's financial records of daily collections.
2. Strengthen controls over the transportation of checks and other negotiable instruments. In this regard, DMV may want to consider having a bonded, transportation company perform pickup and delivery of negotiable instruments.
3. Strengthen controls over the handling of checks, cash, and other negotiable instruments. In this regard, DMV may want to consider providing security containers for overnight storage of items to be safeguarded and other facility improvements.
4. Establish procedures that require a chain of custody within DMV for the handling, transportation, and processing of negotiable instruments. These procedures should also require that reconciliations of negotiable instruments be performed in a secure room, free of interruption and interference, and only accessible by individuals with reconciliation responsibilities and their respective managers.
5. Determine whether undeposited checks have been placed in storage and take action as necessary to recover any amounts due the District.

CLOSING

Please provide your response to these recommendations by April 2, 2004. Your response should include actions taken or planned, target dates for completion of planned actions, and reasons for

CONTROLS OVER NEGOTIABLE INSTRUMENTS

Anne C. Witt, Director, DMV
MAR No. 04-A-12
March 24, 2004
Page 4 of 4

any disagreements with the issues and recommendations. You may suggest alternative actions that would resolve the conditions disclosed in this report. **Our intention is to limit distribution of this Management Alert Report until comments are received. Therefore, please circulate it only to those personnel who will be directly involved in preparing your response.**

Should you have questions concerning this report or desire a conference before preparing your response, please call William J. Divello, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,



Austin A. Andersen
Interim Inspector General

AAA/ff

cc: Mr. Robert C. Bobb, City Administrator
Mr. Herbert R. Tillery, Deputy Mayor For Operations
Mr. Ben Lorigo, Executive Director, Office of Integrity and Oversight, OCFO

DMV RESPONSE TO MAR No. 04-A-12

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Department of Public Works
Department of Motor Vehicles
Department of Transportation

MEMORANDUM

TO: Austin A. Anderson, Interim Inspector General
Office of the Inspector General

FROM: Anne [redacted], Director
Department of Motor Vehicles
Pamela [redacted], Associate Chief Financial Officer
Government Services Cluster

DATE: April 19, 2004

SUBJECT: Controls Over Negotiable Instruments at the Department of Motor Vehicles (DMV)

The Department of Motor Vehicles (DMV) and the Office of the Associate Chief Financial Officer of the Government Services Cluster (GSC) received your Management Alert Report dated March 24, 2004 and are grateful for your quick response in reviewing this matter.

The audit has revealed that management improvements are needed to prevent financial loss and improve security. Summarily, you noted that DMV did not deposit \$83,000+ in checks and/or money orders received and did not have adequate safeguards of payments against loss or theft. In response, we concur with the recommendations and have made some and are implementing other necessary operational changes to address deficiencies. One such change will be the establishment of a Service Integrity unit within DMV that would perform various internal control evaluations for the purpose of overall operational enhancements and improvements.

Below you will find more detailed responses to each of the recommendations within the Management Alert Report.

RECOMMENDATION: *Establish controls that ensure that cashiers and supervisors conduct reconciliation's to DESTINY reports and the District's financial records of daily collections.*

RESPONSE: Currently, DMV and OCFO personnel are performing reconciliations. At the end of each day, the Customer Service Representative (CSR) at the sites adds all check, money order and credit card payments separately by using the adding machine. This produces a tape, which is then wrapped around each group. The CSR closes out the day's transactions in DESTINY. This produces a transaction sheet for that CSR. The supervisor compares the tapes against the DESTINY transaction sheet for each CSR, which serves as the first reconciliation. The

DMV RESPONSE TO MAR No. 04-A-12

supervisor then places the checks, money orders and credit card receipts with accompanying tapes and DESTINY transaction sheet into a cash-handling bag. The bag is then transported to OCFO personnel at DMV headquarters. In order to establish better accountability and to improve internal control, we are now requiring the supervisor to sign off on the adding machine tapes and DESTINY transaction sheet.

Once the bag is received by the OCFO they prepare a daily deposit and the total is compared to the DESTINY report. This is the second reconciliation of DESTINY reports to daily collection received for deposit. There is a separate deposit prepared for each of the 5 sites in order to reconcile with DESTINY. In addition, OCFO staff prepares a daily discrepancy report that is given to the site supervisor. If adequate explanation is not received within a reasonable period of time, a report is issued to the Director of DMV and the Fiscal Officer, DMV.

At this time DESTINY does not interface with SOAR. The Office of Finance and Treasury (OFT) are responsible for entering the information into SOAR. DMV has entered into an agreement with the Office of the Chief Technology Officer (OCTO) to review and design a process to automate the agency's manual financial transactions, including the interface of DESTINY with SOAR. In the interim the OCFO's staff reviews and compares the DESTINY reports that are generated daily to the information entered into SOAR by OFT.

RECOMMENDATION: *DMV may want to consider having a bonded, transportation company perform pickup and delivery of negotiable instruments.*

RESPONSE: Currently, DMV has an agreement with OFT to provide a daily pick-up by a bonded transportation company of cash payments collected at the 5 sites. The bonded transportation company delivers the cash payments to OFT's main cashier where they are then sent to the bank for deposit. We will explore the possibility of the bonded transport of all negotiable instruments.

RECOMMENDATION: *DMV may want to consider providing security containers for overnight storage of items to be safeguarded and other facility improvements.*

RESPONSE: DMV is in the process of purchasing a safe for storage of checks, money orders and other sensitive items. The key and pass code will be kept by the OCFO supervisor responsible for the final reconciliation process.

RECOMMENDATION: *Establish procedures that require a chain of custody within DMV for the handling, transportation, and processing of negotiable instruments. These procedures should also require that individual with reconciliation responsibilities and their respective managers perform reconciliation of negotiable instruments in a secure room, free of interruption and interference, and only accessible.*

RESPONSE: DMV has established procedures that outline a chain of custody for the handling and processing of checks and money orders from DMV's CSR clerks to OCFO staff. DMV is currently looking for a separate secure room, free of interruptions and interference for the OCFO staff to perform reconciliations. Additionally, each of the five collection sites will be staffed with an OCFO employee. Currently that is the case at two of the five sites.

RECOMMENDATION: *Determine whether undeposited checks have been placed in storage and take actions as necessary to recover any amounts due the District.*

DMV RESPONSE TO MAR No. 04-A-12

RESPONSE: A staff consisting of DMV and OCFO personnel converged on the storage area during February and March for the purpose of recovering all checks and money orders that may have been stored with transaction data. Currently dated negotiable instruments that were found from this effort were deposited in the amount of \$3,561; collection letters to business for outdated receivables were forward with full recovery expected in the amount of \$62,867. Outdated negotiable instruments from citizens have not been pursued for recovery that total \$6,690.

As you can see we are in the process of addressing every recommendation of the Office of the Inspector General to improve the quality of the cash/check handling processes of the DMV. Both of us are committed to taking any action germane to our individual offices that would improve the operation of the DMV and ensure fiscal integrity.

LOSS REVENUE DUE TO DISHONORED CHECKS AND RELATED FEES

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



April 9, 2004

Anne C. Witt
Director
Department of Motor Vehicles
301 C Street, NW, Room 1018
Washington, D.C. 20001

Dear Ms. Witt:

The purpose of this Management Alert Report (MAR No. 04-A-13) is to inform you that a significant loss of revenue due to dishonored checks and related fees was identified during our ongoing Audit of the Department of Motor Vehicles (DMV), OIG No. 04-2-07KV. The Office of the Inspector General provides these reports when we believe a serious matter requires the immediate attention of District of Columbia government officials.

During our audit, you asked that a review of dishonored checks be performed. Our preliminary review of records at the Office of Finance and Treasury (OFT) revealed that DMV received 2,352 dishonored checks totaling \$490,629 during fiscal year (FY) 2003 for DMV products or services. In addition to this loss of revenue, we estimate that DMV has not collected revenue for the dishonored checks fees totaling approximately \$152,880 (2,352 x \$65).

In FY 2003, DMV recovered only \$119,337 for dishonored checks and related fees for FY 2003 and prior years. We were informed that DMV mails the customer a dishonored check notice requesting that the customer resubmit payment along with the dishonored check fee. However, we noted that DMV does not suspend or revoke products or services provided to the customer after the receipt of a dishonored check.

CRITERIA

According to the District of Columbia Municipal Regulations (DCMR) Tit. 18, Chapter 11, § 1104.6:

until the fees and collection charges are paid to DMV, (for a dishonored or unduly paid check), no services or products of the department, including but not limited to, the following items shall be provided to that person:

- a) Original or duplicate motor vehicle driver's licenses;
- b) Vehicle identification tags;
- c) Special use tags;
- d) Original or duplicate registration certificates;
- e) Temporary registration certificates; or
- f) Original or duplicate certificates of title.

LOSS REVENUE DUE TO DISHONORED CHECKS AND RELATED FEES

Anne C. Witt, Director, DMV
MAR No. 04-A-13
March 26, 2004
Page 2 of 4

Additionally, D.C. Code § 1-333.11 (2001) authorizes the Mayor "to prescribe and impose a fee to be paid by each person who gives or causes to be given, in payment of any tax, assessment, fee, charge, or other obligation due the government of the District of Columbia, a check which is subsequently dishonored or not duly paid." OFT has set this fee at \$65. D.C. Code § 1.333.11 further states that "[a]ny receipt previously given in reliance upon such checks shall be void, and no other receipt shall be given for the payment of the original amount due until the fee has also been paid."

DISCUSSION

Our audit found that DMV had not: (1) established a routine system to accurately account for, track, and collect dishonored checks; (2) aggressively implemented collection procedures for dishonored checks and the associated fees; and (3) enforced the suspension of customer services (e.g., registration and the revocation of customer services license) in accordance with the DCMR.

In addition, DMV records were not maintained to identify the total number and the dollar amount of dishonored checks received. Records and documents provided by OFT showed a loss in revenue of \$490,629 in FY 2003 due to dishonored checks. This amount is \$66,000 more than the total dollar amount reflected in DMV records for the same period of time.

The current process at DMV for the collection of dishonored checks provides for DMV to send a notification to the customer that payment has been returned for non-sufficient funds. This notification states that the customer has 10 days to remit payment for products or services, along with a returned check fee of \$65. If payment is not received by DMV within the 10-day period, the regulations allow for DMV to suspend or revoke the product or service provided to the customer for nonpayment. We found that DMV does mail a dishonored check notice to the customer that is automatically generated by DMV's DESTINY System. However, DMV had not suspended or revoked customer products or services for those customers who did not resubmit payment within the 10-day period. While DMV has collected over \$119,000 in FY 2003 for all outstanding dishonored checks and related fees, collection efforts need to be strengthened to collect remaining outstanding amounts and related fees.

Our review found minimal efforts to follow-up on dishonored check notices sent by DMV. Further, DMV does not impose late fees or additional penalties for non-payment of delinquent accounts. We also found that DMV does not maintain a record of dishonored checks in the customer's history file in DESTINY. This information would be useful to management in determining whether the DMV should accept payment by checks from this customer for future transactions.

Further, DMV had not provided adequate training to the employees responsible for handling and processing dishonored checks. We noted that there were no handbooks, manuals, or training materials regarding the dishonored check process to aid DMV employees in carrying out daily duties and responsibilities. In the absence of proper training, employees develop inaccurate techniques, which lead to inefficient and ineffective methods in handling dishonored checks.

LOSS REVENUE DUE TO DISHONORED CHECKS AND RELATED FEES

Anne C. Witt, Director, DMV
MAR No. 04-A-13
March 26, 2004
Page 3 of 4

Factors contributing to these deficiencies included a lack of written policies, procedures, or guidelines pertaining to dishonored check processes, as well as, inadequate training of personnel responsible for recording, reporting, and collecting dishonored checks.

The absence of written policies and procedures allows for potential fraud, mismanagement, and errors, and also increases the potential for a loss of revenue. In addition, written policies and procedures are necessary to ensure consistency and uniformity in the processing of transactions and to decrease the risk of inaccurate and inadequate processing of dishonored checks by DMV employees.

Although DMV has taken actions to mitigate the loss of revenue from uncollected dishonored checks, we believe that DMV should take more aggressive action to collect monies due the District (e.g., revoking or suspending services for which payments and related fees are still due). DMV should also establish controls to record, monitor, and collect monies for dishonored checks to alleviate any further loss of revenue to the District.

RECOMMENDATIONS

We recommend that the Director, DMV:

1. Establish and implement written policies and procedures to ensure that dishonored checks are processed accurately, timely, and efficiently. The policies and procedures should require that employees involved in processing dishonored checks are properly trained. For reporting and control purposes, the policies and procedures should include a requirement to perform a reconciliation of amounts reported by OFT and DMV records and provide statistics of amounts outstanding and recovered for each fiscal year.
2. Aggressively implement collection procedures to collect on dishonored checks and related returned check fees and mandate that actions be taken to recover funds in accordance with D.C. Code § 1-333.11 (2001). Actions should include the cessation of DMV services in the event a customer does not honor a dishonored check and pay the dishonored check fee within 10 days of the dishonored check notice.
3. Develop and implement controls for monitoring and tracking of dishonored checks. Such controls should include the use of computer programs in DESTINY that will: (1) reject the payment by check option after a specified number of dishonored checks have been written or after a dishonored check has remained unresolved after a specified period of time; (2) notify DMV employees of a customer's past dishonored check history; and (3) provide management reporting capabilities for purposes of tracking dishonored check activity.

LOSS REVENUE DUE TO DISHONORED CHECKS AND RELATED FEES

Anne C. Witt, Director, DMV
MAR No. 04-A-13
March 26, 2004
Page 4 of 4

CLOSING

Please provide your response to the recommendations by April 20, 2004. Your response should include actions taken or planned, target dates for completion of planned actions, and reasons for any disagreements with the issues and recommendations. You may suggest alternative actions that would resolve the conditions disclosed in this report. **Our intention is to limit distribution of this Management Alert Report until comments are received. Therefore, please circulate it only to those personnel who will be directly involved in preparing your response.**

We appreciate the cooperation and courtesies of DMV personnel and the facilities made available to us during the ongoing audit. Should you have questions concerning this report or desire a conference before preparing your response, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Austin A. Andersen
Interim Inspector General

AAA/jw

cc: Mr. Robert Bobb, City Administrator
Mr. Herbert Tillery, Deputy Mayor for Operations
Mr. Ben Lorigo, Executive Director, Office of Integrity and Oversight, OCFO

DMV RESPONSE TO MAR 04-A-13

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF MOTOR VEHICLES

★ ★ ★



Office of the Director

MEMORANDUM

TO: Austin Anderson
Interim Inspector General

FROM: Anne Witt *Lucinda M Roberts*
Director

DATE: June 3, 2004

SUBJECT: Response to Management Alert Report (MAR) 04-A-13 dated April 9, 2004, Re Loss of Revenue from Dishonored Checks and Related Fees

This memo responds to your communications of April 9, 2004, and May 20, 2004, regarding MAR No. 04-A-13. I appreciate your understanding that the initial memo was apparently misplaced and providing DMV an extended response deadline of June 4, 2004.

Responding to DMV's request, OIG has conducted an ongoing audit No. 04-2-07KV, including review of the handling of dishonored checks, and determined that in FY2003 DMV was not following through to suspend or revoke products or privileges provided to a customer after the receipt of a dishonored check and was not effectively pursuing collection of the \$65 fee for each dishonored check. The MAR acknowledges our recent efforts to mitigate the loss of revenue from uncollected dishonored checks, but recommends additional action.

We concur with the recommendations in MAR 04-A-13, which are addressed in more detail below, and have been working on these issues as we restructure operations in the Department of Motor Vehicles. A key product of the organizational restructuring will be the establishment of an Office of Service Integrity, for which we are currently recruiting a top manager to be the Department's Integrity Officer, MSS-15. The Office of Service Integrity will perform a range of internal control monitoring and evaluation functions to ensure that risks are identified, laws and regulations are followed and losses are mitigated more effectively in the future. In addition, the issues raised in MAR 04-A-13 have been incorporated into the Department's risk management plan and will be monitored as part of our risk management initiative reporting process. Risk management is one of the core functions to be transferred to the Office of Security Integrity upon hiring of the agency Integrity Officer.

DMV RESPONSE TO MAR 04-A-13

MAR No. 04-A-13
Page 2 of 3

Recommendation 1: *Establish and implement written policies and procedures to ensure that dishonored checks are processed accurately, timely and efficiently. The policies and procedures should require that employees involved in processing dishonored checks are properly trained. For reporting and control purposes, the policies and procedures should include a requirement to perform a reconciliation of amounts reported by OFT and DMV records and provide statistics of amounts outstanding and recovered for each fiscal year.*

Response 1: DMV's current restructuring will add a policy analyst position to the Office of the Deputy Director for Operations, and will create an agency training unit, to be in place and operational at the outset of FY2005. Compiling a comprehensive, online Intranet manual of all DMV policies and implementation of across-the-board training for all employees will be top priorities for these new units. Although we previously requested and received training assistance from OFT's Dishonored Check Section, we will develop a more formal in-house training program. The anticipated completion of the dishonored checks policies and procedures and necessary training is June 25, 2004.

Recommendation 2: *Aggressively implement collection procedures to collect on dishonored checks and related returned check fees and mandate that actions be taken to recover funds in accordance with D.C. Code § 1-333.11 (2001). Actions should include the cessation of DMV services in the event a customer does not honor a dishonored check and pay the dishonored check fee within 10 days of the dishonored check notice.*

Response 2: In the past, DMV mailed written notification to all customers whose checks were dishonored requiring them to present certified checks or money orders within ten business days or risk the cancellation of the service received. However, we did not aggressively follow-up and take corrective action on those who failed to comply. As of May 24, 2004, we have revamped the letter and put procedures in place to aggressively follow-up on customers who fail to comply. In addition, due to the high level of abuse among taxicab drivers, the D.C. Taxicab Office will be officially notified of any taxicab driver whose registration is cancelled due to dishonored checks.

Recommendation 3: *Develop and implement controls for monitoring and tracking of dishonored checks. Such controls should include the use of computer programs in DESTINY that will: (1) reject the payment by check option after a specified number of dishonored checks have been written or after a dishonored check has remained unresolved after a specified period of time; (2) notify DMV employees of a customer's past dishonored check history; and (3) provide management reporting capabilities for purposes of tracking dishonored check activity.*

Response 3: A meeting has been conducted with Destiny programmers to determine the requirements for implementing the above recommendations. Although a management report will be created and provided to management by June 25, 2004, it was determined that a comprehensive Joint Analysis Design (JAD) session was needed to determine the necessary business rules for rejecting future check payments and tracking customer dishonored check history online. This session, which will also include discussions on additional automation of sending out the dishonored check letters in indicated in Response 2, will be scheduled for early July 2004. The estimated completion date of the programming changes is September 2004. (Note: Currently, Destiny programming changes (i.e., build) are implemented every two months to allow necessary design, programming and testing. Since the cutoff

DMV RESPONSE TO MAR 04-A-13

MAR No. 04-A-13
Page 3 of 3

period for the July build has already passed, the next scheduled build is September. However, we will work with the programmers to see if these changes can be implemented prior to September.)

Thank you for the Office of Inspector General's ongoing assistance with our efforts to improve the integrity and performance of the Department of Motor Vehicles. Please do not hesitate to contact me or Lucinda Babers, Deputy Director, if you require further information. We can be reached at 202-724-2034 or Anne.Witt@dc.gov and Lucinda.Babers@dc.gov.

cc: Robert Bobb, City Administrator
Herbert Tillery, Deputy Mayor for Operations
Ben Lorigo, Executive Director, Office of Integrity and Oversight, OCFO

DMV RESPONSE TO DRAFT REPORT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF MOTOR VEHICLES



OFFICE OF THE DIRECTOR

January 18, 2005

Mr. Austin A. Anderson
Interim Inspector General
717 14th Street N.W.
Washington, D.C. 20005

Dear Mr. Anderson:

This memo responds to your communication of January 5, 2005, summarizing the results of an audit performed at my request. Included in your communication were three (3) Management Alert Reports (MARs) that this agency had taken the appropriate actions on and had communicated these actions to your office via written communication. The MARs issued by your office addressed Potential Health Hazards, MAR No. 04-A-11; Controls over Negotiable Instruments, MAR No. 04-A-12; and Loss of Revenue Due to Dishonored Checks and Related Fees.

In addition to the MARs, you provided additional findings and recommendations that centered on the need for DMV to update its policy and procedures manual to include additional procedures for processing customer refunds and to develop procedures for dishonored checks.

Below you will find our detailed responses to each of the eight recommendations in your report:

Recommendation: Modifying DESTINY to enable systematic processing of customer refunds.

Response: The DMV is committed to evaluating those systems that would provide accurate tracking of DMV related transactions. DMV's DESTINY computer program currently has a refund module for processing refunds. However, this module is not currently operational. There are also refunds associated with the ticket processing function of DMV that are handled outside of the Destiny system. This is currently an automated process that does not require manual initiation of the refund process.

DMV RESPONSE TO DRAFT REPORT

DMV has created a project team to assess the proper application of technology for an automated refund system. This team's focus is the design of a comprehensive refund system that addresses internal controls, customer service expectations, and streamlining the refund process to reduce the steps needed in the process, paper work, and time. The team is being lead by a Business Process Reengineering systems specialist from OCTO and includes representation from DMV and OFT. The recommendations are expected in the second quarter of FY 05.

We were recently advised that the City Administrator's Center for Innovation and Reform is analyzing the functions of DMV to determine the advantages and disadvantages of having state (driver and vehicle) and local (tickets) functions performed by the same agency. DMV has been asked to postpone any further actions and/or investments that combine these functions pending the outcome of the study. This has created a temporary delay to the refund system development project, which will resume with the City Administrator's decision. In either event, the outcome will be an automated refund process via Destiny, but at this time we cannot be specific when responding to the time frame.

Recommendation: Creating a memorandum of understanding between DMV and the Office of the Chief Financial Officer (OCFO) to govern the relationship and responsibilities of OCFO for processing customer refunds.

Response: The Department is unaware of any policy, processing or performance issues with this arrangement, and will work to memorialize them in an MOU with the OCFO within the next 90 days.

Recommendation: Developing and implementing additional written policies and procedures for processing customer refunds.

Response: DMV is in the process of reviewing and revising the existing policies and procedures for the manual refund process. There are a number of source documents that exist that will serve as a key resource in this review. At the appropriate time, any system changes that result from the automation of the refund process will be incorporated into the procedures manual.

Recommendation: Requiring that DMV employees maintain adequate supporting documentation to justify processing customer refunds.

Response: DMV has adopted instructions that require all supporting documentation be retained on file in DMV as well as forwarded to the OCFO for processing.

Recommendation: Obtaining all available documentation for the 16 unaccounted for refund requests for review by the Office of the Inspector General at a later date.

Response: In the next 30 days, DMV will again search for any remaining documentation and provide all available documents to the IG office for review.

DMV RESPONSE TO DRAFT REPORT

Recommendation: Scheduling formal training for DMV employees responsible for processing customer refunds that addresses providing customer service, documenting refund transactions, and processing and recording refunds.

Response: We concur with this recommendation and DMV has trained its employees responsible for the current refund process, and will provide more global training on the new automated systems, policies and procedures when they are adopted.

Recommendation: Requiring that employees write customer record identifiers, such as a driver's license number, title number, transaction identification, etc., on checks received for DMV services.

Response: We concur with this recommendation. There have been new processes established that require the staff to utilize the check reading machines available at each station. We are also implementing a process that will provide a more appropriate audit trail on the reverse of the checks taken at the walk-up locations. The checks will have additional information placed on the reverse by using a stamp that includes the date, ID number of the CSR/cashier, and the Destiny transaction number, (to be filled in by the CSR/cashier). This new process will provide adequate information for any necessary research.

Recommendation: Evaluating the merits of purchasing and implementing an automatic transaction validation system that systematically records an imprint of the transaction identification for tracking purposes.

Response: We are currently researching and evaluating a number of check processing opportunities ranging from systems that will allow for the production of an audit trail on the reverse of the check to systems that will allow for the electronic encumbrance of the funds at the time of the transaction. The focus of this research is the reduction of lost revenue from returned checks.

Sincerely,



Anne Witt, Director
Department of Motor Vehicles

cc: Tina Booker-Forbes
Pamela Graham
Justo Diaz