

An Audit Report on

The Texas Department of Transportation's Motor Vehicle Registration and Titling System

September 2005

Report No. 06-007



The Texas Department of Transportation's Motor Vehicle Registration and Titling System

Overall Conclusion

The Texas Department of Transportation's (TxDOT) accounting controls over the collection of revenue from motor vehicle registration and titling fees work as designed. For fiscal year 2004, TxDOT reported \$1.4 billion in revenue transactions from registration and titling fees. It correctly processed and collected 99 percent of the revenue transactions that auditors tested.

TxDOT is not collecting all possible revenue from registration and titling operations, but the amount of revenue that remains uncollected may be small in comparison with the total amount collected from registration and titling fees. TxDOT is not collecting all revenue because it (1) does not require county tax assessor-collector offices to pay statutorily required interest penalties when they do not remit registration and titling fees on time and (2) does not ensure that it receives all fees from renewals of specialty license plates.

TxDOT's Registration and Titling System

TxDOT's Registration and Titling System is a uniform, automated system that county tax assessor-collector offices have used since 1994 for registering and titling motor vehicles.

One of that system's features is a point-of-sale sticker printing system, which was recently implemented throughout the state. In 1999, the initial five-year cost estimate for the design and implementation of the point-of-sale sticker system was \$55 million. However, TxDOT reports that the estimated life cycle costs are only \$7.8 million. This system allowed for the discontinuation of the use of preprinted vehicle registration stickers and eliminated TxDOT's inventory storage requirements. It also allowed county tax assessor-collector offices and their subcontractors (such as grocery stores and car dealerships) to print the vehicle registration stickers on site.

TxDOT has developed a process for operating a point-of-sale system used to print registration stickers. The point-of-sale computer system was tested and designed well and has controls that allow users to successfully renew vehicle registrations. However, auditors noted certain issues associated with this system:

- It is unclear whether TxDOT received the best value for the sticker paper used in the point-of-sale system. TxDOT could not produce any of the pricing information submitted by the bidders to which it did not award the contract for the sticker paper. Texas Government Code, Section 2156.009, requires agencies to retain this documentation.
- Project costs have increased more than \$900,000 because TxDOT had to purchase new printers and printer accessories, although the request for proposal required that the sticker paper work with the existing printers. The costs of operating supplies also have increased significantly. The original cost of the sticker paper on the blanket purchase order was \$97.65 per carton of 900 forms; however, as of May 2005, that cost had increased to \$203.35 per carton of 1,500 forms. This resulted in an increase of approximately \$0.03 (25 percent) per



sheet. Based on average usage of 22 million stickers per year, the annual cost increase could be as much as \$594,000, which results in a \$2.4 million cost increase over the four-year term of the purchase order.

- TxDOT did test the sticker paper for a number of required specifications listed in the request for proposal, but it chose not to test other specifications that have become areas of concern.
- TxDOT's controls do not compensate for a number of possible methods to produce fraudulent stickers.

In addition, although staff from TxDOT's 17 regional offices regularly visit all 254 county tax assessor-collector offices, they do not consistently monitor the activities of those offices. TxDOT also does not perform statutorily required audits of registration and titling fees that are collected and remitted to the State by county tax assessor-collector offices. Regular monitoring and auditing are important to ensure that all policies and procedures are followed, to determine whether users have appropriate computer access, and to test for inappropriate financial activity.

Summary of Management's Response

TxDOT agrees with the majority of the recommendations in this report. We have added auditor's follow-up comments to clarify certain instances of disagreements. TxDOT's detailed responses are included throughout the report.

Summary of Information Technology Review

This audit's information technology (IT) review covered TxDOT's testing of its Registration and Titling System. This included a review of TxDOT's testing of one of the main components of the Registration and Titling System, the point-of-sale registration sticker printing system.

Overall, TxDOT did a good job in testing and developing the Registration and Titling System and the point-of-sale system. The IT work focused on access controls and transaction level controls. Auditors did not review general IT controls. Opportunities exist for TxDOT to improve the security of the data on the diskettes that subcontractors use to deliver vehicle registration and title information to county tax assessor-collector offices.

In addition, TxDOT can improve the security of its Registration and Titling System by ensuring that only those county and state employees with the authority to change vehicle and title information are granted the ability to do so. Currently, a large number of employees have the ability to modify that information, and the number of individuals who are granted that ability should be limited to minimize the risk of potential fraud.

Summary of Objective, Scope, and Methodology

The objective of this audit was to determine whether TxDOT maintains effective accounting control over the revenues from motor vehicle registration and titling fees.

The audit scope included processes and procedures for registration and titling revenue collected at the county tax assessor-collector offices and TxDOT, including monitoring of that revenue and the related effects of the new point-of-sale registration sticker printing system.

The audit methodology consisted of collecting information and documentation; analyzing and evaluating data; performing selected tests and other procedures; and conducting interviews with TxDOT management and staff, as well as county tax assessor-collector office management and staff.

Recent SAO Work		
Number	Product Name	Release Date
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05-007	An Audit Report on the Department of Transportation's Administration of Construction Contracts	October 2004
04-028	An Audit Report on the Department of Transportation's Management of the Statewide Traffic Analysis and Reporting System	May 2004

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Detailed Results

Chapter 1

TxDOT Correctly Processes Revenue from Motor Vehicle Registration and Titling Fees; However, Certain Improvements Are Needed

The Texas Department of Transportation's (TxDOT) accounting controls over the collection of revenue from motor vehicle registration and titling fees work as designed, and TxDOT processes and collects revenue from these fees correctly. For fiscal year 2004, TxDOT reported that it processed \$1.4 billion in revenue from registration and titling fees.

TxDOT's accounting controls over revenue collected through the International Registration Plan for registration of interstate commercial vehicles also work as designed. TxDOT has adequate policies and procedures for the ongoing monitoring of International Registration Plan revenue received from other jurisdictions.

TxDOT is not collecting all possible registration and titling revenue, but the uncollected amount may be small in comparison with the \$1.4 billion in total revenue collected from registration and titling fees annually. Specifically:

- TxDOT does not require county tax assessor-collector offices to pay the statutorily required 10 percent interest penalty when they do not remit the State's portion of registration and titling fees on time. In fiscal year 2004, the total amount remitted late was approximately \$27,000.
- The State and entities that sponsor specialty license plates are not receiving all funds from renewals of registrations associated with these plates because TxDOT's specialty license plates database is not integrated with its Registration and Titling System.

TxDOT has developed a plan to quantify lost revenue from unregistered vehicles and encourage compliance with Texas's vehicle registration laws. A 2004 survey that TxDOT commissioned estimated that lost revenue from unregistered vehicles was approximately \$95 million annually.

Chapter 1-A

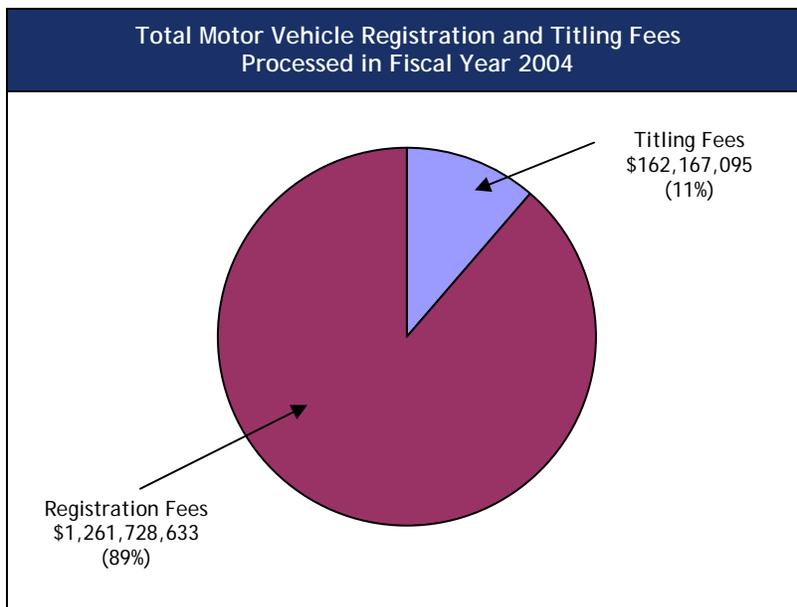
TxDOT Processes Revenue from Vehicle Titling and Registration Fees Correctly

Audit testing found that TxDOT's accounting controls over revenue from registration and titling fees work as designed and that TxDOT processes this revenue correctly. Auditors tested a sample of 182 registration and titling fee transactions and found that 181 (99 percent) were correctly collected from county tax assessor-collector offices, processed through TxDOT's Registration and Titling System, and posted to the appropriate fund. The only

error identified occurred on a transaction for which a county tax assessor-collector office did not remit funds to TxDOT in a timely manner. As of August 3, 2005, payment had not been made, and more than 60 days had passed since the payment due date.

For fiscal year 2004, TxDOT reported \$1.4 billion in revenue transactions from registration and titling fees. As Figure 1 shows, 89 percent of that amount came from registration fees and 11 percent came from titling fees.

Figure 1



Source: Texas Department of Transportation, 2005 VTR Facts

TxDOT's accounting controls over revenue collected through the International Registration Plan (see text box) also work as designed. TxDOT has adequate policies and procedures for the ongoing monitoring of International Registration Plan revenue received from other jurisdictions. For fiscal year 2004, TxDOT reported that its International Registration Plan Branch collected more than \$52.6 million in fees from other jurisdictions and distributed more than \$45.4 million in fees to other jurisdictions.

The International Registration Plan

The International Registration Plan is a registration program for licensing commercial vehicles that are engaged in interstate operations across multiple states and Canadian provinces.

Chapter 1-B

TxDOT Is Not Collecting All Possible Registration and Titling Revenue, but the Uncollected Amount May Be Relatively Small

TxDOT is not collecting all possible registration and titling revenue, but the uncollected amount may be small in comparison with the total revenue collected from registration and titling fees:

- Currently, TxDOT does not require county tax assessor-collector offices to pay the 10 percent interest penalty required by Texas Transportation Code, Section 502.107(a), when they do not remit the State's portion of registration and titling fees on time. In fiscal year 2004, 11 county tax assessor-collector offices were late in remitting the State's portion a total of 21 times. The total amount remitted late that year was approximately \$27,000. County tax assessor-collector offices are allowed up to 34 days after receipt of titling and registration fees to remit those fees to TxDOT.
- The State and entities that sponsor specialty license plates are not receiving all funds from renewals of registrations associated with these plates because TxDOT's specialty license plates database is not integrated with its Registration and Titling System. As a result, vehicle owners are able to renew their vehicle registrations without paying the required specialty license plate renewal fee. Auditors could not estimate the amount of lost revenue associated with this issue because TxDOT's specialty license plate database could not produce the information required to calculate an estimate.

According to TxDOT's Special Plates Branch management, the problems associated with county tax assessor-collector offices' renewing registrations without requiring owners to pay specialty license plate renewal fees and the need to monitor unpaid fees will be alleviated after the specialty license plate database is integrated with TxDOT's Registration and Titling System. Currently, the county tax assessor-collector offices have access to TxDOT's Motor Vehicle Data Information system, which is operated through the Registration and Titling System. However, they have no efficient way to verify specialty license plate renewals or expirations and, therefore, must call TxDOT's Special Plates Branch to make this verification. TxDOT expects to complete the integration of its specialty license plate database with its Registration and Titling System in the first half of calendar year 2006. However, this schedule may be aggressive because TxDOT has indicated that there is currently a four-year backlog of vehicle title and registration information technology projects.

During audit fieldwork in July 2005, TxDOT's Vehicle Title and Registration Division sent a bulletin to all county tax assessor-collector offices advising the offices that TxDOT had noticed an increase in the number of registration renewals processed by the counties for vehicles that had expired specialty license plates. The bulletin clarified the actions that county tax-assessor collector offices should take to ensure that customers have paid for specialty license plate renewals before renewing their vehicle registrations.

Recommendations

TxDOT should:

- Comply with Texas Transportation Code, Section 502.107(a), and collect the required 10 percent interest penalty when county tax assessor-collector offices do not remit the State's portion of registration and titling fees on time.
- Until the complete integration of specialty license plate information in the Registration and Titling System, monitor the renewal of vehicle registrations associated with specialty license plates to ensure that county tax assessor-collector offices are collecting the specialty license plate renewal fees owed to the State and entities that sponsor specialty license plates.

Management's Response

We agree. TxDOT reconciles amounts due and paid from counties on a daily basis. Any past due amount is immediately noted and is usually paid within a few days. In addition, all past due remittances are reported to TxDOT's Chief Financial Officer as part of the Finance Division's Quarterly Revenue Measures Report. As stated in the report the total amount past due is relatively small and typically includes 8 to 10 counties. TxDOT will continue to monitor remittances on a daily basis and SAO should be assured that any material and/or significant amount reaching past due status or any amount that remains past due for an extended period of time will be assessed penalty interest in accordance with Transportation Code, Section 502.107(a) when the additional amount to be received exceeds the cost of the associated collection efforts.

[Responsible position – Chief Financial Officer]

We agree with this finding. However, upon implementation of RTS Phase III –Special Plates, in calendar year 2006, this problem will be resolved by transferring responsibility for collection of specialty plate fees to the county tax offices. This will consolidate collection of both the specialty plate fees and the registration fees at a single point of sale. We also agree that the uncollected amount is small in comparison with overall revenue collected within the RTS program. TxDOT has been making consistent efforts to improve upon this problem since January of 2005.

[Responsible position – Director of the Vehicle Titles and Registration Division]

TxDOT Has a Plan to Quantify Lost Revenue Associated with Unregistered Vehicles and Encourage Compliance with Vehicle Registration Laws

TxDOT has developed a plan to quantify lost revenue from unregistered vehicles and encourage compliance with Texas's vehicle registration laws. A 2004 survey that TxDOT commissioned estimated that lost revenue from unregistered vehicles was approximately \$95 million annually.

TxDOT has contracted with a consultant to develop a public awareness marketing campaign strategy to encourage voluntary compliance with vehicle registration laws in Texas. The two-year contract requires the vendor to demonstrate an actual reduction in vehicle registration evasion by the end of the first year of service and at least a 0.5 percent reduction within 18 months, which will result in the collection of an estimated \$5.6 million in revenue annually. The vendor will also use public announcements, television and radio commercials, and other types of media to communicate the importance of voluntary compliance with Texas's vehicle registration laws.

TxDOT's Point-of-Sale System for Printing Registration Stickers Was Tested and Designed Well, but Certain Issues Regarding the Sticker Paper and the System's Controls Should Be Addressed

TxDOT has developed a process for operating a point-of-sale system used to print registration stickers. The computer system that supports the point-of-sale system was tested adequately and designed well, and it has controls that are designed to allow users to successfully renew vehicle registrations. However, we noted certain issues regarding the sticker paper and controls surrounding the point-of-sale system:

- It is unclear whether TxDOT received the best value for the sticker paper used in the point-of-sale system. TxDOT could not produce any of the statutorily required pricing information submitted by the bidders to which it did not award the contract for the paper.
- TxDOT did test the sticker paper for a number of required specifications listed in the request for proposal, but it chose not to test other specifications that have become areas of concern.
- TxDOT's controls do not compensate for a number of possible ways to produce fraudulent stickers.

Chapter 2-A

TxDOT's Point-of-Sale System Was Tested Adequately and Designed Well

TxDOT adequately tested its point-of-sale system to ensure that the system functions as intended. The system is designed to allow users to take a renewal notice, verify the information on the notice, and print out registration stickers on site. A review of a sample of material from user acceptance testing indicated that this testing was organized well and that the instructions for implementation were clear. The errors TxDOT identified during user acceptance testing were tracked and resolved.

In addition, the point-of-sale computer system was well designed with adequate controls. For example, auditors observed that the system protects customer vehicle information, does not contain any owner-specific information, and requires users to change their passwords every 90 days.

Auditors Noted Certain Issues Regarding the Sticker Paper and Weaknesses in Controls Surrounding the Point-of-Sale System

It is unclear whether TxDOT received the best value for the sticker paper, and the costs of the stickers and certain materials associated with the stickers also have increased.

Documentation Requirements of the Texas Government Code and the Texas State Library and Archives Commission

- Texas Government Code, Section 2156.009, specifies that, on award of a contract, the division of the commission responsible for purchasing or the state agency making the purchase shall prepare and file with other records relating to the transaction a statement of the reasons for making the award to the successful bidder and the factors considered in determining which bidder offered the best value for the state.
- The Texas State Library and Archives Commission's *Texas State Records Retention Schedule*, Section 53.007, states that bid documentation includes bid requisition/authorizations, invitations to bid or propose, bid specifications, and bid tabulation/evaluations. It further states that this documentation must be retained through the fiscal year-end plus an additional three years. In addition, if a formal written contract is the result of a successful bid or request for proposal, the successful bid or request for proposal and its supporting documentation must be retained for the same period as the contract.

TxDOT could not produce any of the pricing information submitted by the bidders to which it did not award the contract for the sticker paper. The final scoring documentation that determined the selected vendor was also missing. Texas Government Code, Section 2156.009, requires agencies to retain this documentation, and minimum state records retention requirements specify that bid documentation must be retained through the end of the fiscal year plus an additional three years (see text box for additional details regarding these requirements).

TxDOT's General Services Division provided some documentation that it referred to as the "bid package"; however, information of significant importance was missing. The missing information included supporting documentation for the evaluation committee's decision and information regarding oral presentations by the vendors considered. The General Services Division

acknowledged that the complete original purchase order file could not be located. Because documentation was missing, auditors could not verify whether the selected vendor offered the best value for the sticker paper.

However, based on the documentation the auditors did receive, the costs of the sticker paper and certain materials associated with the sticker paper have increased. Specifically:

- TxDOT purchased 1,200 new printers and printer accessories at a cost of more than \$900,000. TxDOT specified in its request for proposal (RFP) that the sticker paper should work with the existing printers in inventory in August 2002. However, the non-winning bidder had a higher pass rating on tests of existing printers than did the winning bidder.
- After TxDOT selected the vendor, the cost of the sticker paper increased from \$97.65 per carton of 900 forms on the initial blanket purchase order to \$203.35 per carton of 1,500 forms as of May 2005, which is approximately a \$0.03 (25 percent) increase per sheet. Based on average usage of 22 million stickers per year, the cost increase could be as much as \$594,000 per year, or \$2.4 million over the four-year term of the purchase

order. The cost increases were due to TxDOT's decision to (1) add a colored background, (2) add an anti-static coating to improve the sticker paper's ability to correctly feed into the printers (the RFP originally required that the sticker paper feed through the printers properly), and (3) accept a new printing technology (the winning bidder had to purchase a new printing machine for the sticker forms, and this cost was passed on to TxDOT). TxDOT was aware of the problem regarding the paper's ability to feed into the printers before the contract was awarded.

TxDOT did not test the sticker paper for a number of required specifications.

Contract Material and Testing Specifications for Registration Sticker Paper

- Paper shall be demonstrated to perform satisfactorily in the point-of-sale dispensing system proposed.
- Prequalification testing includes stabilization and testing through a weatherometer (a device that allows materials to be subjected to tests that simulate natural weathering).
- Sticker paper shall incorporate a repetitive security feature to discourage removal and reuse of the sticker.
- The printing on the sticker must be permanent and unalterable.
- The ink shall not fade for a period of 36 months and shall not dissolve or fade when exposed to common household cleaners.
- The forms must feed correctly and allow the toner and inks to adhere adequately.
- The plate sticker shall be vandal-proof—any attempt to remove shall cause irreparable damage to the sticker.
- The physical characteristics of the liner shall be such that when it is cut and the base film is bent along the liner cut with the liner to the outside of the bend, the corner of the liner will become free from the adhesive or it can be easily separated from the adhesive with the fingernail.

There have been instances in which county tax assessor-collector offices have received batches of defective stickers as well as public complaints relating to the quality of the stickers. TxDOT did not perform tests on the quality of the adhesive to ensure that the sticker can be removed easily from the paper. TxDOT also did not test to ensure that the toner ink would not fade from the sticker (see text box for additional specification details). These are areas in which TxDOT has been experiencing reported problems with the new stickers. TxDOT also did not perform any additional testing of the paper after the anti-static coating was applied. However, it did perform prequalification testing on the effects of varying weather conditions and heat on the stickers prior to awarding the contract.

TxDOT's controls do not mitigate risks associated with a number of possible ways to produce fraudulent stickers.

One of TxDOT's reasons for switching to the point-of-sale sticker printing process was to allow it to discontinue its inventory-based process for registration stickers. Under the previous inventory-

based process, individual registration stickers that TxDOT provided to the county tax assessor-collector offices and their subcontractors were tracked and accounted for. However, TxDOT has decided not to establish physical controls over the sticker paper used in the point-of-sale system. It does not inventory the sticker paper or require the county tax assessor-collector offices or their 432 substations to inventory the paper. This increases the risk that blank sticker paper could be stolen and used to make fraudulent registration stickers. Due to the black market value of vehicle registration stickers, there may be significant incentive for individuals to steal the blank forms and produce fraudulent registration stickers.

Some county tax assessor-collector offices have implemented procedures to track blank sticker paper. Others have expressed concern that the implementation of the point-of-sale system increases the risk that fraudulent stickers could be produced.

TxDOT also does not require monitoring of the reprinting or voiding of stickers. Our survey of TxDOT's regional office managers indicated that 11 regional offices plan to monitor this aspect of the point-of-sale system, but 6 of them do not. The absence of monitoring could increase the number of fraudulent stickers and cause TxDOT to lose revenue. Excessive voids and reprints are red flags for potential fraud, and some employees of county tax assessor-collector offices expressed concern regarding TxDOT's lack of direction for addressing voids and reprints.

For example, at one training session held at a county tax assessor-collector office, auditors observed that approximately 15 reprinted registration stickers from the training session were not accounted for. These stickers contained a valid vehicle license number, partial vehicle identification number, and a county of residence. The reprinted stickers were not marked "void," nor were efforts made to collect them at the close of training.

Recommendations

TxDOT should:

- Maintain all records used in determining which bidder offers the best value.
- Post in the *Texas Register* the names and addresses of every bidder for its materials and supplies contracts, and identify which one was the winning bidder. TxDOT should also provide to the State Auditor's Office, the Legislative Budget Board, and the Texas Building and Procurement Commission an annual written certification affirming that it has complied with state requirements for procurement record retention. This certification should be signed by TxDOT's executive director.
- Re-evaluate its contract for the sticker paper for possible deficiencies in vendor performance.
- Consider requiring all county tax assessor-collector offices to track their inventories of sticker paper.
- Provide uniform training and guidance to county tax assessor-collector offices on handling voided and reprinted registration stickers. Subcontractors should be required to return all voided or reprinted forms to the county tax assessor-collector office.

Management's Response

The procurement of new printers and printer accessories was not an increase in project costs. The Project Management Plan dated January 14, 2002, identified the need for 2367 printer drawers for existing HP2100 printers and 1100 workstations (i.e. laptop, handheld scanner and printer) for the limited service providers (subcontractors and motor vehicle dealers). The POSSP Project was implemented utilizing the existing fleet of printers at the county tax offices, with the addition of a new paper tray identified to house the POSSP forms. The purchase of new workstations, including the printers and accessories, was a recognized obligation to satisfy the need to produce stickers at locations that previously did not have the required printing equipment. Some subcontractors and all motor vehicle dealers are leasing this equipment from TxDOT.

We do not agree with the recommendation for posting information in the Texas Register on purchases of material and supplies because it will duplicate to a great extent the reporting requirements already required by existing statute and rule. These reporting requirements contain information on TxDOT purchasing activities for materials and supplies. TxDOT will comply with the requirements of HB 26, 79th Legislature for reporting major contract information to TBPC, Texas Government Code 2155.083 that requires posting in the Electronic State Business Daily (ESBD) information as prescribed in the section about each state agency procurement that will exceed \$25,000 in value, and the purchasing rules (1TAC §113.213) which require posting of the awarded vendor in the ESBD.

We agree and will provide annual written certification affirming that we have complied with state requirements for record retention for the purchase of materials and supplies under the State Purchasing Act. It should be noted that TxDOT does comply with state requirements for record retention. TxDOT's records retention schedule is approved by the Texas State Library and Archives Commission, and the schedule is maintained on a regular basis as required by 13TAC §6.4 to ensure the integrity of our record keeping practices.

[Responsible position – Director of the General Services Division]

We agree and will review the contract in question to determine if any adjustments are appropriate. There has been ongoing random sample testing of deliveries of new batches of sticker forms.

[Responsible position – Director of the Vehicle Titles and Registration Division]

We have monitoring tools used by TxDOT and the county tax assessor-collector offices that will identify any decrease or slowing of growth of registration/registration renewals should a problem arise.

[Responsible position – Director of the Vehicle Titles and Registration Division]

All VTR Regions consistently monitor reprint and void activity through regular examination and monitoring of the Batch Inventory Action Report (BIAR). This report reflects reprinted and voided transactions conducted at county offices, subcontractor locations (e.g., grocery stores) and dealerships. This monitoring activity will be added to the uniform checklist for the regions. (See Chapter 3-B).

[Responsible position – Director of the Vehicle Titles and Registration Division]

We agree that the county tax assessor-collector offices should be provided uniform training and guidance, and are currently providing such training. We provide training and the report monitoring practices for the county tax office for handling voided and reprinted transactions. Subcontractors are required to return all voided reprinted forms to the county tax assessor-collector offices.

[Responsible position – Director of the Vehicle Titles and Registration Division]

Auditor’s Follow-Up Comment

TxDOT asserts that the procurement of the new printers and printer accessories did not result in an increase in project costs. To clarify, TxDOT’s Project Management Plan, which was dated January 14, 2002, identified the following costs:

Item	Number	Cost	Total Costs
Printer Trays	2,367	\$149.99	\$355,026
Workstations	1,100	\$1,500	\$1,650,000
Total Computer Hardware			\$2,005,026

That plan does not specify that TxDOT will purchase additional printers or accessories other than printer trays. However, TxDOT is asserting that a workstation includes a laptop, scanner, and printer and that a workstation is estimated to cost \$1,500 per unit. In contrast, in the IT industry, the definition of a workstation only includes a microcomputer. Using TxDOT’s definition of a workstation, the cost overrun would be almost \$600 per workstation and approximately \$1.1 million more than TxDOT’s original plan estimate.

In addition, TxDOT does not post the name of every bidder. TxDOT’s postings in the *Electronic Business Daily* include only the name of the winning bidder.

To further clarify, not all regional offices monitor sticker reprints and voids. Results of our survey of TxDOT regional offices indicated that 11 of 17 regional offices planned to conduct some type of monitoring of reprints and

voids. The other 6 regional offices indicated that this monitoring is the responsibility of the county tax assessor-collector offices.

Chapter 2-C

Diskettes Containing Registration Data from the Point-of-Sale System Are Not Secure

The registration data saved on diskettes that subcontractors use to submit data from the point-of-sale system is not secured well. This could allow an individual to edit the fields on a diskette to replace a valid registration with a fraudulent one. The fraudulent registration would then be updated in TxDOT's Registration and Titling System, and the valid registration would never be updated. As a possible scenario, an individual who paid for a valid registration sticker could be stopped by a law enforcement officer, and the individual's vehicle information would be noted as invalid in the Registration and Titling System.

One existing compensating control is that there are no headers on the data on the diskette. Therefore, any individual attempting to substitute data on the diskette would have to know what data is scanned into the system and how it is arranged on the diskette.

Recommendation

TxDOT should strengthen the security over the registration of information contained on subcontractor diskettes through methods such as encryption.

Management's Response

*We agree and have initiated a system enhancement request (IRR 52050021). While this project has not yet been prioritized it is likely that this finding can/will be corrected within 120 days of project initiation.
[Responsible position – Director of the Vehicle Titles and Registration Division]*

TxDOT Should Improve Its Monitoring of County Tax Assessor-Collector Offices' Registration and Titling Operations

TxDOT does not perform statutorily required audits of the registration and titling fees that county tax assessor-collector offices collect and remit to the State. Additionally, although staff from TxDOT's 17 regional offices regularly visit all 254 county tax assessor-collector offices, they do not consistently monitor the activities of those offices. Regular monitoring and auditing are important to ensure that all policies and procedures are followed, to determine whether users have appropriate computer access, and to test for inappropriate financial activity. Examples of inconsistencies in monitoring include the following:

- Only 5 of the 17 regional offices have documented procedures for conducting site visits at county tax assessor-collector offices. This can cause inconsistencies in monitoring across the state.
- Only 4 of the 17 regional offices review the access that county tax assessor-collector employees have to TxDOT's Registration and Titling System. Monitoring access is important because certain employees in county tax assessor-collector offices have the ability to modify key vehicle owner fields.

Chapter 3-A

TxDOT Should Audit the Registration and Titling Fees that County Tax Assessor-Collector Offices Collect and Determine the Amount of Any Interest Due to the State

TxDOT is not complying with Texas Transportation Code, Section 502.107(b), which requires it to (1) audit the registration and titling fees collected and remitted to the State by each county tax assessor-collector office and (2) determine the exact amount of interest due on any fees these offices did not remit as required. As noted in Chapter 1, TxDOT is not collecting this interest.

The Revenue Accounting Division informed auditors that it thought the Vehicle Title and Registration Division was performing these audits; conversely, the Vehicle Title and Registration Division informed auditors that it thought the Revenue Accounting Division was performing these audits. This indicates there is a lack of awareness regarding who is responsible for performing this function, which could explain why these audits are not being conducted.

Recommendation

TxDOT should implement procedures to comply with the Texas Transportation Code, Section 502.107(b), that will help ensure that TxDOT (1) audits the registration and titling fees collected and remitted by each county tax assessor-collector office and (2) determines the exact amount of interest due on any fees not remitted.

Management's Response

As stated at the beginning of this report, accounting controls regarding the revenue collection within the Registration and Titling System (RTS) work as designed and correctly process and account for vehicle registration and title receipts.

We ensure that all amounts due from the counties in the Registration and Titling System are properly received, accounted for and reconciled in the Uniform Statewide Accounting System as well as the department's internal accounting system on a daily and monthly basis. In short, all amounts due per the RTS system are reconciled or otherwise accounted for.
[Responsible position – Chief Financial Officer]

Auditor's Follow-Up Comment

TxDOT does not audit the registration and titling fees collected and remitted by each county tax assessor-collector office, and it does not determine the exact amount of interest due on any fees that were not remitted.

Chapter 3-B

TxDOT Regional Office Staff Regularly Visit All County Tax Assessor-Collector Offices, but Their Monitoring Is Not Consistent

Auditors' survey of TxDOT's regional office managers revealed that staff from all of the regional offices make regular visits to all of the 254 county tax assessor-collector offices. Staff from most of TxDOT's regional offices visit the county tax assessor-collector offices at least monthly, and staff from all of TxDOT's regional offices visit the county tax assessor-collector offices at least once every six to eight weeks.

However, only 5 of the 17 regional offices had documented procedures for conducting visits at county tax assessor-collector offices. This lack of documented procedures can result in inconsistent monitoring of the offices' operations. For example:

- Only two of five regional offices included a procedure to audit insufficient funds checks received by county tax assessor-collector offices for the payment of registration fees. TxDOT's *Motor Vehicle Registration Manual* states,

“When the department audits the tax office, the file (containing the dishonored checks for a calendar year) will be checked to verify that the checks on which credit has been authorized have not been redeemed.” Only two regional offices indicated that they check this file as required.

In April 1999, TxDOT’s Vehicle Title and Registration Division requested a programming enhancement to the Registration and Titling System to address identified weaknesses in the current system for processing refunds and insufficient funds checks. According to a TxDOT representative, the problem with this system is a difficulty in reconciling the amount of credits. In addition, a county tax assessor-collector office can refund its portion of the fees but still enter the full amount of fees into the system. In fiscal year 2004, TxDOT registration refunds and insufficient funds checks totaled \$2,497,429.

This enhancement is necessary because the Registration and Titling System does not provide adequate safeguards to ensure the accuracy and accountability of all credited funds. The proposed enhancement would tighten security on the ability to indicate or change the amount of funds to be credited. This enhancement was approved but has not been implemented and is not scheduled for implementation until fiscal year 2006. Not monitoring compliance with the insufficient funds policies may reduce accountability and allow undetected errors in records regarding credited funds.

- Only 4 of 17 regional offices monitor county tax assessor-collector employee access to the Registration and Titling System. Only four regional offices indicated that they monitor county tax assessor-collector office employees’ access levels in the Registration and Titling System. Auditors’ analysis of system access levels revealed that more than three-fourths (78 percent) of the employees in three of the seven larger county tax assessor-collector offices, which maintain more data and therefore carry higher risk, had critical access to modify vehicle owner information in the Registration and Titling System. However, of the four regional offices that stated they monitored access, only one was responsible for overseeing a large metropolitan county. This lack of monitoring could increase the risk of unauthorized modification of registration information and the misappropriation of related revenue.

Recommendation

TxDOT should consider developing uniform monitoring procedures for regional office visits conducted at county tax assessor-collector offices.

Management's Response

We agree. As of August 25, 2005, a uniform checklist was developed and disseminated to all regional offices to further ensure uniformity in our site visits to county tax assessor-collector offices.

[Responsible position – Director of the Vehicle Titles and Registration Division]

Regional Office field personnel routinely follow uniform, standardized procedures that both monitor and support county operations. These practices include consistent examination and review of the BIAR report that reflects all reprinted and voided transaction activity. Our guidance and direction has been communicated and achieved through various methods (e.g., conference calls, manager meetings, field training). This monitoring and review duty will be added to the regional office checklist for county office contact.

[Responsible position – Director of the Vehicle Titles and Registration Division]

We agree and will monitor security access of county tax office personnel to the Registration and Title System. This monitoring duty has been added to the regional office checklist for county office contact.

[Responsible position – Director of the Vehicle Titles and Registration Division]

Auditor's Follow-Up Comment

The purpose of auditors' survey of the 17 regional offices was to determine whether TXDOT did, indeed, have uniform monitoring procedures over the county tax-assessor collector offices. The survey responses received indicated that that no uniformity exists across the regional offices. However, there are some regional offices, such as the offices in Waco and Austin, that could serve as models for all other regional offices with regard to monitoring procedures. Furthermore, as stated above, only seven of the regional offices indicated that they monitor batch inventory action reports.

Appendix

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Texas Department of Transportation (TxDOT) maintains effective accounting control over the revenues from motor vehicle registration and titling fees.

Scope

The audit scope included processes and procedures for registration and titling revenue collected at the county tax assessor-collector offices and TxDOT, including monitoring of that revenue and the related effects of the new point-of-sale registration sticker printing system.

The audit scope also covered transactions processed by TxDOT's Registration and Titling System during May 2005 and computer system testing performed in fiscal year 2005. TxDOT's Vehicle Title and Registration Division administers the Registration and Titling System, which is a statewide computer system for tracking motor vehicle registration information and certificates of title and is used by county tax assessor-collector offices in registering and titling vehicles.

Statute requires the State Auditor's Office to participate on the Quality Assurance Team (QAT), which approves and monitors major information resource projects. Our involvement in the QAT could potentially affect our independence in the reporting of results related to the Registration and Titling System we audited. However, we proceeded with this audit due to the risk associated with this IT project. We conducted this audit in accordance with generally accepted government auditing standards with the exception of this potential effect on our independence. Our involvement in the QAT did not affect our audit conclusions.

Methodology

The audit methodology consisted of collecting information and documentation; analyzing and evaluating data; performing selected tests and other procedures; and conducting interviews with TxDOT management and staff, as well as county tax assessor-collector office management and staff.

Auditors also contacted Texas Building and Procurement management and staff to obtain contract documents related to the new point-of-sale system.

Information collected and reviewed included the following:

- Point-of-sale sticker printing project documentation and manuals
- Texas motor vehicle registration and title manuals
- Revenue transactions processed by the Registration and Titling System during May 2005
- Various reports generated by the Registration and Titling System
- TxDOT policies and procedures related to revenue collected through the Registration and Titling System
- Request for proposal and bid packages submitted by vendors

Procedures and tests conducted included the following:

- Analytical testing of transactions processed by the Registration and Titling System, including tracing transactions from their entry into the Registration and Titling System at the county tax assessor-collector offices to their posting into TxDOT's Financial Information Management System
- Review of specifications for the point-of-sale sticker paper and equipment related to printing the stickers
- Evaluation of TxDOT's internal controls for processing revenue (made by conducting walk-throughs and interviews with staff)

Criteria used included the following:

- Texas Transportation Code, Chapter 502
- Texas Government Code, Chapter 2156 (Purchasing)
- Federal guidelines for the International Registration Plan for interstate trucking

Other Information

We conducted the audit from February 2005 through August 2005. The following members of the State Auditor's staff performed this audit:

- Michael Simon, MBA (Project Manager)
- Kathy Aven, CIA (Assistant Project Manager)
- Greg Adams, CPA, MBA (Team Member)
- Mary Goldwater

- Marlen Randy Kraemer, MBA, CISA (Information System Audit Team)
- Yulia Plakhotnikova
- Serra Tamur, MPAff, CIA, CISA (Information System Audit Team)
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Verma Elliott, MBA (Audit Manager)

Copies of this report have been distributed to the following:

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The Honorable Tom Craddick, Speaker of the House, Joint Chair
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The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

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The Honorable Rick Perry, Governor

Members of the Texas Transportation Commission

Mr. Richard F. “Ric” Williamson, Chair
Ms. Hope Andrade
Mr. Ted Houghton
Mr. John W. Johnson

Texas Department of Transportation

Mr. Michael W. Behrens, P.E., Executive Director



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