



Arizona Department of Transportation
Office of the Director

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September 20, 2004

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Debbie Davenport
Auditor General
2910 North 44th Street
Phoenix, Arizona 85008

Dear Ms. Davenport:

The Arizona Department of Transportation extends its thanks to you and your staff for the professionalism displayed during the performance audit and Sunset review of the Arizona Department of Transportation, Motor Vehicle Division.

In response to the audit, the Department plans to implement the recommendations as follows:

Finding #1 Vehicle Registration Compliance Program

1. **Auditor General Recommendation:** MVD should develop an additional software application to send delinquency letters to Arizona residents who do not renew their vehicle registrations.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.

The program was originally established to focus on new Arizona residents not complying with state registration laws. One of the tools we have provided to the public over the years is a 1-800 line that can be used to report possible non-compliance. Many of the leads we receive are related to automobiles with out-of-state plates driven by Arizona residents. The program, as originally designed, has proven successful; we agree that expanding the target population at this time would be beneficial.

2. **Auditor General Recommendation:** MVD should ensure that revenues from its vehicle registration enforcement efforts are correctly reported by addressing the programming errors that allow revenues to be erroneously attributed to cases.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.



By continuous monitoring of measures associated with the Registration Compliance Program, MVD has discovered the need for, and implemented, changes to the automated tracking system over time. The findings presented by the Auditor General will also be implemented.

3. **Auditor General Recommendation:** MVD management should either modify its Registration Compliance System to track the enforcement activity for each case or periodically conduct valid studies of registration enforcement cases so that management can determine the cost-effectiveness of the various case types and enforcement methods and direct officer activities to those cases and methods.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.

4. **Auditor General Recommendation:** MVD should discontinue using the indirect revenue measure as part of its calculation of the return on investment of its vehicle registration enforcement program and as a basis for remitting a portion of this revenue to the General Fund.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.

Finding #2 MVD should improve fuel tax refunds processing

1. **Auditor General Recommendation:** MVD should update its current procedures and implement additional, written procedures that document the steps and requirements for processing, validating, reviewing, and issuing fuel tax refund claims.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.

The Division is already working on evaluating current policies and procedures as well as related system issues. We expect this implementation will be lengthy due to various issues including reprogramming enhancements for TARGATS and filling critical positions.

2. **Auditor General Recommendation:** Once it has updated its procedures and implemented additional procedures, MVD should ensure that all staff involved in the processing and review of fuel tax refund claims are trained on the procedures.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.

The Motor Vehicle Division has already started work on this recommendation, and is currently conducting some training.

3. **Auditor General Recommendation:** To help ensure appropriate oversight and monitoring of the refunds process, MVD should establish and implement procedures requiring:

- a. Two levels of refund approval based on the refund amount;

- b. Supervisory review of the accuracy and validity of all refunds before they are issued and requiring that questionable refund claims be referred to its Tax Evasion Unit for review; and
- c. Independent audits by ADOT's Office of Audit and Analysis of a random sample of refund claims annually based on a systematic audit plan.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendations will be implemented.

4. **Auditor General Recommendation:** MVD should strengthen the requirements that stipulate the documentation taxpayers must maintain to support refund claims and the documentation taxpayers must submit with their refund claims.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.

The Division has encountered some issues in the past relative to at least one refund type, diesel differential.

5. **Auditor General Recommendation:** MVD should develop more comprehensive forms and instructions for taxpayer claims to assist taxpayers in the filing of claims and help ensure that MVD has all required information to process and verify refund claims.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.

In the past, forms had more detailed instructions. The Division will go back to providing the detail.

Finding #3 MVD should examine its fees

1. **Auditor General Recommendation:** MVD should continue with its recently initiated process to evaluate its fees. MVD's newly formed working group should use a systematic approach that includes the following steps:
 - a. Identify fees that are not cost-effective to collect or that are no longer needed;
 - b. Evaluate fees that represent a significant amount of revenue or a relatively large number of transactions;
 - c. Perform a fee-by-fee analysis of the selected fees using a structured approach for determining the costs of the services;
 - d. Recommend appropriate fees changes to the Legislature.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.

The Motor Vehicle Division has formed a working team to study fees. The team has started working on those fees that generate the most revenue. The Division anticipates that the analysis of these selected fees will take some time. At this time, it is unknown when the appropriate level for these fees will be determined so that a recommendation can be made.

The ultimate goal of collecting fees is to cover specific costs. Many existing fees have dollar amounts specified in statute, which means that legislation must be proposed and passed before fee amounts may be raised to address increases in associated costs. Therefore, it may be recommended that statutory fees not indicate a specific dollar amount in the future. The Division will research other ways of dealing with fees, including changing the setting of fees by statute to Administrative Rule; establishing "up-to" caps rather than a specific amount; using language that allows fees to be set that cover specific costs; and adopting an automatic adjustment tied to some type of indicator.

2. **Auditor General Recommendation:** For those fees that the working group analyzes, MVD should collect the necessary cost, revenue, and transaction data and information on the actual cost of services provided and associated fees charged.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.

That is exactly what the working team on fees plans to do.

Finding #4 MVD should better protect registration renewal fees

1. **Auditor General Recommendation:** MVD should establish and maintain the following processes and procedures to better safeguard registration renewal monies:
 - a. Store registration renewal payments in an adequate physical facility, such as a safe or locking storage cabinet, and limit access to necessary employees;
 - b. Limit mailroom access to necessary employees;
 - c. Immediately endorse all checks and money orders upon receipt by processing registration renewals the same day they are received, or generate a record of money received, such as a receipt, to accompany registration renewal documentation during processing;
 - d. Create and use a daily mailroom log that documents the number of envelopes for each bundle of mail;
 - e. Create and use a batch worksheet that tracks the distribution of mail before and during processing;
 - f. Develop and implement policies and procedures for handling cash and cash-like receipts that incorporate the recommended changes made in this report and define employee responsibilities for each step in the cash-handling process; and

- g. Periodically request a procedural review from ADOT's Office of Audit and Analysis to ensure it establishes and adheres to appropriate cash-handling policies and procedures.

Motor Vehicle Division Response: The finding of the Auditor General is agreed to, and the recommendation will be implemented.

Registration renewals will be stored in a locked cabinet. Locks have already been installed, thereby limiting access to the mailroom. On item "c" the Division opts for the first alternative, which coincides with the program's goal to process registration renewals the day they are received. The Division will pursue the second alternative in item "c", generating a record of money received, if the first alternative cannot be achieved; however, this would require an additional staff person.

Sincerely,

Victor M. Mendez
Director

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