



**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

September 20, 2007

The Honorable Robert Blendu, Chair  
Joint Legislative Audit Committee

The Honorable John Nelson, Vice Chair  
Joint Legislative Audit Committee

Dear Senator Blendu and Representative Nelson:

Our Office has recently completed a 30-month followup of the Arizona Department of Transportation—Motor Vehicle Division—State Revenue Collection Functions regarding the implementation status of the 23 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2004 (Auditor General Report No. 04-09). As the attached grid indicates:

- 15 have been implemented;
- 7 are in the process of being implemented, and
- 1 has not been implemented.

Since all but one of the audit recommendations have been implemented or are in progress, and unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the Department's efforts to implement the recommendations from the September 2004 performance audit report.

Sincerely,

Melanie M. Chesney, Director  
Performance Audit Division

DD:Sjb  
Attachment

cc: Victor Mendez, Director  
Arizona Department of Transportation

**ARIZONA DEPARTMENT OF TRANSPORTATION**  
**Motor Vehicle Division—State Revenue Collection Functions**  
**30-Month Follow-Up Report To**  
**Auditor General Report No. 04-09**

**FINDING 1: MVD can improve the cost-effectiveness of its vehicle registration compliance program**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
1. MVD should develop an additional software application to send delinquency letters to Arizona residents who do not renew their vehicle registrations.	<b>Implemented at 12 Months</b>	
2. 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.	<b>Implemented at 6 Months</b>	
3. 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.	<b>Implemented at 30 Months</b>	
4. 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.	<b>Implemented at 30 Months</b>	

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**FINDING 2: MVD should improve fuel tax refunds processing**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
1. 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.	Implementation in Process	MVD has begun to implement the Finding 2 recommendations by revising its fuel tax refund administrative rules. MVD reported that once the rules are approved, it will implement written procedures for processing, validating, reviewing, and issuing fuel tax refund claims.
2. 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.	Implementation in Process	Once its administrative rules are approved and procedures implemented, MVD plans to provide training to its staff on the rules and procedures.
3. 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;	Implementation in Process	MVD has revised its fuel tax refund forms, which require two levels of refund approval, and is developing criteria for when the secondary review will be required. According to MVD, it plans to implement the new forms and the two-level review process after the revised rules have been finalized.

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**FINDING 2: MVD should improve fuel tax refunds processing (concl'd)**

<p>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</p>	<p>Implementation in Process</p>	<p>While supervisory review includes refund claim accuracy, it does not yet include a review for the validity of the claim.</p>
<p>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.</p>	<p><b>Implemented at 12 Months</b></p>	
<p>4. 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.</p>	<p>Implementation in Process</p>	<p>MVD's draft of administrative rules includes requirements regarding the documentation taxpayers must maintain and submit with their fuel tax refund claims.</p>
<p>5. 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.</p>	<p>Implementation in Process</p>	<p>MVD has revised its refund claim forms and reports it will begin drafting instructions after the revised rules are finalized.</p>

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**FINDING 3: MVD should examine its fees**

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. 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;	Implementation in Process	MVD performed a fee study for 10 of its more than 350 fees in July 2005 and found that all 10 fees were not high enough to cover their associated service costs. MVD reported that it will continue its efforts to review and study its fees.
b. Evaluate fees that represent a significant amount of revenue or a relatively large number of transactions;	<b>Implemented at 30 Months</b>	
c. Perform a fee-by-fee analysis of the selected fees using a structured approach for determining the costs of the services; and	<b>Implemented at 30 Months</b>	
d. Recommend appropriate fee changes to the Legislature.	<b>Not Implemented</b>	According to MVD officials, Arizona Department of Transportation management decided not to forward the results of its first fee study to the Legislature.
2. 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.	<b>Implemented at 30 Months</b>	

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**FINDING 4: MVD should better protect registration renewal fees**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
1. 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>Implemented at 12 Months</b>	
b. Limit mailroom access to necessary employees;	<b>Implemented at 12 Months</b>	
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;	<b>Substantially Implemented at 12 Months<sup>1</sup></b>	
d. Create and use a daily mailroom log that documents the number of envelopes for each bundle of mail;	<b>Implemented at 12 Months</b>	
e. Create and use a batch worksheet that tracks the distribution of mail before and during processing;	<b>Implemented at 12 Months</b>	

<sup>1</sup> MVD has substantially implemented this recommendation by processing registration renewals in an average of 2-3 days.

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**FINDING 4: MVD should better protect registration renewal fees (concl'd)**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
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	<b>Implemented at 30 Months</b>	
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.	<b>Implemented at 24 Months</b>	