

The August 2023 Arizona Department of Transportation (Department)—MVD's Oversight of Third Parties performance audit was the first of 3 audit reports of the Department we issued as part of the Department's sunset review. The second performance audit assessed whether MVD inspected commercial driver license examination providers and examiners within federally required time frames and consistently took remedial action in response to inspection violations it identified, and the third audit provided responses to the statutory sunset factors and assessed whether the Department addressed fraud and security incident risks related to its MVD system and ensured compliance with State purchasing card, conflict-of-interest, and 5-Year Transportation Facilities Construction Program requirements. We will issue separate follow-up reports for the second and third audits

The August 2023 performance audit found that MVD failed to ensure authorized third-party companies consistently issued vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities, increasing public safety risks such as unsafe drivers, vehicle and identify theft, fraud, and terrorism. We made 13 recommendations to MVD, and its status in implementing the recommendations is as follows:

Status of 13 recommendations

Implemented	2
Implemented in a different manner	1
Implementation in process	10

We will conduct an 18-month followup with MVD on the status of the recommendations that have not yet been implemented.

Finding 1: MVD failed to ensure third parties consistently issued vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities, putting public safety and welfare at risk

1. MVD should ensure its third-party contract performance measurement attachment includes clearly defined performance requirements, including outlining in the attachment:
 - How and when accuracy rates will be calculated and measured.
 - Time frames for correcting performance deficiencies.
 - How performance findings will be communicated to third parties.

Implemented at 6 months—MVD modified its third-party contract and included performance requirements in a performance measurement attachment. These requirements include how and when accuracy rates will be calculated and measured, time frames for correcting performance deficiencies, and how performance findings will be communicated to third parties. MVD reported that it provided the performance measurement attachment to all third parties in January 2024 and that as of April 2024, all third parties had agreed to the updated attachment. Our review of documentation from a random sample of 15 of MVD's 89 third parties found that all 15 third parties had agreed to the updated performance measurement attachment.

2. MVD should ensure third parties issue vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities by developing and implementing written policies, procedures, and guidance for its third-party quality assurance process, including but not limited to:

- a. Procedures and required time frames for monitoring third-party completion of self-reviews.

Implementation in process—In June 2024, after we had completed most of our follow-up work, MVD finalized its development of written procedures and/or guidance for its third-party quality assurance process that include:

- Time frames for monitoring third-party completion of self-reviews.
- Procedures for selecting third-party transactions for review and for its staff to review, track, and document identified errors related to these transactions.
- Time frames for communicating the results of MVD staffs' reviews to third parties.
- Steps for MVD staff to follow up with third parties to ensure errors and other performance deficiencies are resolved.
- Procedures for taking enforcement action in response to third-party noncompliance, including steps to escalate enforcement actions; requiring training for third parties that need further guidance; and MVD management's review of its third-party quality assurance process.

We will assess MVD's implementation of its third-party quality assurance procedures during our 18-month followup.

- b. Procedures for selecting transactions completed by third parties for MVD's review, including outlining how and what MVD staff should review, and how to track the results of MVD's review, including documenting any identified errors.

Implementation in process—See explanation for Recommendation 2a.

- c. Procedures and required time frames for communicating the results of MVD staffs' reviews to third parties.

Implementation in process—See explanation for Recommendation 2a.

- d. Procedures and time frames for following up with third parties to ensure errors and other performance deficiencies are resolved.

Implementation in process—See explanation for Recommendation 2a.

- e. Procedures for taking enforcement action in response to third-party noncompliance, including steps to escalate enforcement actions based on repeated/continued noncompliance.

Implementation in process—See explanation for Recommendation 2a.

- f. Procedures for requiring additional training for third parties that require further guidance on its third-party quality assurance process or the minimum standards, such as for third parties that have repeat transaction errors or noncompliance with MVD's quality assurance process.

Implementation in process—See explanation for Recommendation 2a.

- g. Procedures outlining MVD management's review of its third-party quality assurance process to ensure time frames are met and identified performance deficiencies are corrected.

Implementation in process—See explanation for Recommendation 2a.

3. MVD should develop and implement training on its quality assurance policies and procedures for all applicable MVD staff who support the third-party quality assurance process to ensure adherence to established oversight policies, procedures, and guidance.

Implementation in process—MVD developed training on its quality assurance process for MVD staff who support the third-party quality assurance process and, as of January 2024, had administered the training to all applicable staff. However, as discussed in Recommendation 2a, after we had completed most of our follow-up work, MVD finalized its development of written procedures for its third-party quality assurance process. Therefore, we will further assess MVD's implementation of this recommendation during our 18-month followup.

4. MVD should develop and implement training for all third parties or their authorized representatives, and verify their completion of the training, including:

- a. Initial training on the quality assurance process, quality assurance expectations, and available enforcement actions to address noncompliance.

Implemented at 6 months—In January 2024, MVD held an initial training for third parties and/or their authorized representatives on its quality assurance process that included quality assurance expectations, and available enforcement actions to address noncompliance. MVD verified that all third parties absent from the January 2024 training had completed a follow-up training by April 2024.

- b. Ongoing training when necessary because of changes in law, policies, and procedures, and ensure any new information is incorporated into initial training for new third parties or their authorized representatives.

Implemented at 6 months—MVD holds regular meetings with its field office and third-party customer service representatives to discuss quality control errors or other information that needs to be communicated with all third parties. MVD has also updated its online training resources for third parties based on the issues and information discussed during these meetings. Additionally, MVD provided training updates to third parties regarding policy and guidance changes in March, April, and May 2024.

5. MVD should conduct an initial analysis of transactions the third parties were provided for self-review dating back to February 2022 to assess third-party compliance with statutory minimum quality standards and MVD's quality assurance process, and continue to complete a monthly analysis thereafter up until MVD implements a revised third-party quality assurance process as described in Recommendation 2, and:

- Identify the lowest performing third parties.
- Conduct a comprehensive review of the transactions processed by those identified third parties, and work with those identified third parties to resolve transaction errors.
- Work with its Assistant Attorney General to take appropriate enforcement action against third parties that are not complying with the statutorily required minimum quality standards and MVD's quality assurance process.

Implemented in a different manner at 6 months—Our August 2023 performance audit found that third parties lacked documentation confirming individuals were qualified and/or authorized to obtain a vehicle title, driver license, or identification card for 25 of 130 transactions from March through October 2022 that we reviewed. In August 2023, the Department reported that it had reviewed the 25 transaction errors mentioned in our report and that these errors were related to missing documentation for 13 vehicle transfers and 12 driver licenses. The Department also reported that it had worked with third parties to collect applicable documentation. Our review of MVD records and data found that MVD had reviewed all 25 transactions and worked with the third parties to collect additional documentation confirming individuals were qualified and/or authorized to obtain a vehicle title, driver license, or identification card.

In March 2024, the Department's internal audit staff completed an audit of MVD's third parties that included identifying MVD's lowest-performing third parties and assessing the self-reviews conducted by these third parties. The audit also included selecting and reviewing third-party transactions, including transactions related to issuing driver licenses and identification cards and vehicle titles and registrations. The Department selected 240 transactions for review from third-party self-reviews conducted between February 2022 and May 2023 for 5 third parties, including 3 low-performing third parties with error rates above 15 percent. Of the 240 transactions it reviewed from these 5 third parties, the Department identified 35 transactions that were inaccurately reported as error-free, of which 33 were processed by the 3 low-performing third parties. The 35 transactions with errors were related to vehicle titles and registrations, and none were related to driver licenses or identification cards.

According to the Department, the 35 transaction errors did not impact whether the individuals were qualified or authorized to receive the title or registration. For example, transaction errors included processing a vehicle title without documenting the seller's address. As such, MVD provided training to all third parties on its quality assurance process that included training related to common transaction errors MVD has identified (see explanations for recommendation 4a and 4b for more information). MVD also took enforcement action against the 3 low-performing third parties, including sending notices of probation and a corrective action letter, which notifies

third parties that have not met performance requirements that further noncompliance will result in disciplinary action. According to MVD, as of July 2024, 2 of the low-performing third parties had served suspensions and were on probation. According to MVD policy, if either of these third parties receives a violation during their probation, the Department will begin to pursue cancellation of their contracts. In addition, according to MVD data, MVD has taken enforcement actions against other third parties that did not comply with the statutorily required minimum quality standards and MVD's quality assurance process. Further, the Department reported that it has referred 3 notices of intent to suspend third parties to the Arizona Attorney General's Office.

Finally, as of May 2024, MVD had performed weekly analyses of the accuracy of third-party transaction self-reviews. As discussed in Recommendation 2a, as of June 2024, MVD had developed written procedures and/or guidance for its third-party quality assurance process. Therefore, we will assess MVD's implementation of its quality assurance procedures through our work to assess its implementation of Recommendation 2 during our 18-month followup.

6. MVD should identify and implement changes to align its third-party quality assurance process more closely with its quality assurance process for MVD field offices, including conducting a staffing and workload analysis, and taking action as needed to ensure sufficient staffing resources are allocated to third-party oversight.

Implementation in process—In March 2024, MVD performed a workload analysis and identified that it needed 5 additional staff to align the weekly number of third-party transactions that MVD staff review with the weekly number of MVD field office transactions that MVD staff review. MVD reported that it intended to hire 5 additional staff at the beginning of fiscal year 2025 but that its hiring process may be delayed due to budgetary constraints. Additionally, as of June 2024, the Department reported that it was in the process of developing its fiscal year 2025 internal audit plan, which is intended to provide additional third-party oversight by including annual audits of one-third of all third parties. We will further assess MVD's efforts to implement changes to align its third-party quality assurance process more closely with its quality assurance process for MVD field offices and provide additional third-party oversight during our 18-month followup.