

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

REVIEW REPORT  
OF  
BUREAU OF MOTOR VEHICLES,  
BUREAU OF MOTOR VEHICLE COMMISSION  
AND ALL INDIANA LICENSE BRANCHES  
STATE OF INDIANA

July 1, 2009 to December 31, 2010



**FILED**  
07/18/2011



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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner of the Bureau of Motor Vehicles and Chairman of the Bureau of Motor Vehicles Commission	Andy Miller R. Scott Waddell	01-05-09 to 10-08-10 10-08-10 to 01-13-13



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE BUREAU OF MOTOR VEHICLES, BUREAU OF  
MOTOR VEHICLE COMMISSION AND ALL INDIANA LICENSE BRANCHES

We have reviewed the receipts, disbursements, and assets of the Bureau of Motor Vehicles, Bureau of Motor Vehicle Commission and All Indiana License Branches for the period of July 1, 2009 to December 31, 2010. The Bureau of Motor Vehicles, Bureau of Motor Vehicle Commission and All Indiana License Branches' management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Bureau of Motor Vehicles, Bureau of Motor Vehicle Commission and All Indiana License Branches are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

June 20, 2011

## INTRODUCTION

This comprehensive review combines the findings relating to the Bureau of Motor Vehicles (BMV), the Bureau of Motor Vehicles Commission (BMVC), all Indiana license branches, and Partial Service branches. These entities have significant interrelated operations.

Operationally, the license branches function as the primary site for issuing driver licenses, titles, new auto and watercraft registrations, and issuing of Indiana license plates. Registration renewals can be conducted through a number of venues, including branches, partial service branches, mail-in, and online through myBMV.com. The fees for drivers' license, titles, registrations, and plates and the associated taxes are collected through these transactions and locations. All sites utilize the Support Tracking and Record Support (STARS) computer system to process agency transactions.

The system used by the license branches to provide the above services has been developed and is maintained by the BMV. The BMV is responsible for accurate and timely distribution of the fees and taxes collected. In addition, the BMV supports the training and continuing operations within the branches; contracts for services and products; serves as a resource for county officials with excise tax questions; and performs numerous other duties.

The BMVC has been established by Indiana Code. The Commission consists of five individuals appointed by the Governor to serve four-year terms and the Commission Chairperson who is the Commissioner of the BMV. Except for the Commissioner, members are not required to devote full-time to their commission duties. Commission duties include developing and updating bureau policy; establishing standards for the operation and maintenance of license branches; and submitting budget proposals for the commission, the bureau, and the branches.

BUREAU OF MOTOR VEHICLES,  
BUREAU OF MOTOR VEHICLE COMMISSION  
AND ALL INDIANA LICENSE BRANCHES  
REVIEW COMMENTS  
JULY 1, 2009 TO DECEMBER 31, 2010

***OVER DISTRIBUTION OF FUNDS***

The Bureau of Motor Vehicles (BMV) allows customers to pay for services received with a check. Occasionally checks are returned by the bank for Non-Sufficient Funds (NSF). BMV's current policy is to distribute all fees posted within STARS to the counties, state agencies and not for profit entities 7 days after funds are deposited in license branch bank accounts. BMV receives notification from the bank of a majority of NSF checks within the 7 day waiting period. Once notified of a returned check, BMV does not reduce the distributions for the NSF check amount. This results in a shortfall in the license branch bank account. In order to balance the license branch bank account, funds are transferred from the "Monster Account" to the affected bank account at least once a year. This results in a reduction in the distribution to the BMVC State License Branch Fund (40910). Therefore, BMV has distributed funds to counties, state agencies and not for profit entities that have not been received by the BMV. As of December 31, 2010, BMV over distributed \$1,459,848.37 to counties, state agencies, and not-for-profit entities. These over distributions date back to 1988.

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

BMV has developed a plan that should eliminate the over distribution of funds to the counties, state agencies, and not for profit entities. BMV will extend the waiting period for distributing fees posted within STARS from 7 days to 14 days. BMV's analysis has concluded that over 90 percent of the NSF checks would be identified within 14 days. Also, this will allow BMV to eliminate the NSF amounts from the funds to be distributed to the counties, state agencies, and not-for-profit. BMV's IT department is currently developing the procedures to enact this change.

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REVIEW COMMENTS  
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***STARS NOT RECONCILED TO ENCOMPASS***

The System Tracking and Record Support (STARS) computer system is used by the Bureau of Motor Vehicles and all Indiana license branches for all customer transactions. The transactions posted in STARS are uploaded into ENCOMPASS overnight. BMV maintains a "Monster Account" and individual bank accounts for each license branch. All funds for transactions posted in STARS are deposited into the license branch bank accounts. Eventually the funds in the license branch bank accounts are deposited into the "Monster Account". Also, all distributions to counties, state agencies, and not-for-profit entities are paid out of the "Monster Account". BMV reconciles the "Monster Account" and the license branch bank accounts to STARS on a monthly basis. These reconciliations contain many long-term outstanding adjustments. However, BMV does not reconcile the "Monster Account" or the license branch bank accounts to ENCOMPASS. Therefore, we were unable to determine if the balance reported in ENCOMPASS is proper.

System controls are in effect on the ENCOMPASS financial accounting system, which is the official book of record for the State; however, each agency is responsible for controls in any subsidiary systems used or other records maintained. At all times, the agency's manual and subsidiary ledgers should reconcile with ENCOMPASS. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

BMV has determined that in order to reconcile the "Monster Account" and license branch bank accounts to ENCOMPASS it would be efficient to compact the current three PeopleSoft funds, into which the STARS transactions are uploaded, to one PeopleSoft fund. Since this one fund would contain all STARS transactions, it would enable BMV to perform monthly reconciliations within a timely manner. BMV plans to phase these procedures in starting in fiscal year 2012 once the Auditor of State approves the change.

BUREAU OF MOTOR VEHICLES,  
BUREAU OF MOTOR VEHICLE COMMISSION  
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EXIT CONFERENCE

The contents of this report were discussed on July 5, 2011, with R. Scott Waddell, Commissioner; Shawn Walters, CFO; and Harold Day, Controller. The official response has been made a part of this report and may be found on pages 8 and 9.



# STATE OF INDIANA

Mitchell E. Daniels, Jr., Governor

R. Scott Waddell, Commissioner  
Bureau of Motor Vehicles  
100 North Senate Avenue  
Indianapolis, Indiana 46204  
(888) 692-6841

July 11, 2011

Mr. Bruce Hartman  
State Board of Accounts  
302 W. Washington Street, Room E418  
Indianapolis, IN 46204

Dear Mr. Hartman:

This letter serves as our response to the June 20, 2011, State Board of Accounts (SBOA) Review Report for the Bureau of Motor Vehicles (BMV) and the Bureau of Motor Vehicles Commission (BMVC) covering the period beginning July 1, 2009 and ending December 31, 2010. On behalf of the BMV/C management team and all BMV/C employees, I want to express my appreciation to the SBOA audit team for their professionalism and constructive observations throughout the audit engagement.

The report serves to confirm the ongoing efforts of the BMV/C, by stating that “nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Bureau of Motor Vehicles, Bureau of Motor Vehicles Commission and All Indiana License Branches are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies.”

1) OVER DISTRIBUTION OF FUNDS: The BMV Finance Department, in working with our Information Technology Department, has developed a plan to resolve the “premature” distribution of fees due to payment by customers for BMV services with non-sufficient funds (NSF) to cover the check amount. Currently, we use a seven day delay period after receipt of payment before distributing fees to the counties and other agencies. We have discovered that the majority of checks do not show up as NSF within those seven days, some may take as long as eleven days. Our plan is to change the delay period from seven days to fourteen days, thus allowing time for the majority of NSF checks to surface. NSF transactions can then be removed from the fee distributions to the counties and other agencies. We recognize that this is not a 100% fail safe solution, but are confident that it will eliminate the problem for the vast majority of NSF transactions and inappropriate fee distributions. We estimate that implementation of this plan will begin in early calendar year 2012.

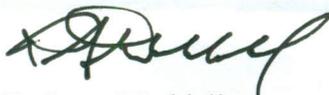
2) STARS NOT RECONCILED TO ENCOMPASS:

Our attempts to reconcile BMVC branch bank accounts and the BMV "Monster Account" to the state's ENCOMPASS accounting system uncovered issues with some funds flowing to inappropriate PeopleSoft accounts. In working with GMIS, Auditor of State and the State Board of Accounts, we determined that for the BMV/C to be able to properly reconcile all of our branch bank accounts and our "Monster Account" to the ENCOMPASS system, we need to be granted the authority to combine the three current PeopleSoft funds, 46640 (BMV Holding), 40990 (State Holding) and 40992 (County Holding), into one fund 46640 (BMV Holding). By creating one fund within our STARS system, it would enable us to perform the monthly reconciliations to ENCOMPASS in an efficient and timely manner. Upon obtaining approval for this action by the Auditor of State and the State Budget Agency and the subsequent adjustment to the funding tables in the STARS system, we will begin monthly reconciliation of all branch bank accounts and our "Monster Account" to the ENCOMPASS system.

The Vision (Promise) of the Bureau of Motor Vehicles continues to be: *We are committed to providing responsive service, accurate records and customers' choices that are fast, secure and easy to use.* The agency strives to achieve this goal by enhancing the customer experience and utilizing a common sense approach to conducting the business of government. Development of user friendly services, such as the myBMV website, and our "IVR" phone system as alternatives to traditional branch visits, serves to both enhance customer satisfaction and lower bureau costs. This combined with the agencies top priority of information security, has produced the results of improved overall performance, validated by industry recognition when the BMV was presented with the *2008 and the 2010 International Awards for Customer Service Excellence* from the American Association of Motor Vehicle Administrators (AAMVA).

Please accept my personal gratitude for the diligent audit process, and know that we look forward to continued collaboration with the SBOA and upholding the BMV's Promise to the constituents of the State of Indiana.

Sincerely,



R. Scott Waddell  
Commissioner