

Audit Report

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**Department of Transportation  
Motor Vehicle Administration**

October 2010

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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**DEPARTMENT OF LEGISLATIVE SERVICES**  
**OFFICE OF LEGISLATIVE AUDITS**  
**MARYLAND GENERAL ASSEMBLY**

October 13, 2010

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Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Department of Transportation – Motor Vehicle Administration (MVA) for the period beginning December 1, 2006 and ending July 9, 2009. MVA's primary purpose is to oversee a variety of activities related to the ownership and operation of motor vehicles, including the registration and titling of vehicles.

Our audit disclosed that MVA did not verify that reports used to identify court conviction cases requiring review for administrative actions were complete. As a result, MVA did not always take appropriate administrative actions against the drivers, such as license suspension or revocation. In this regard, we identified 139 cases, with 12-point violations assessed by the courts, that were not reviewed by MVA. This allowed some of these drivers to inappropriately retain their driving privilege, since State law requires revocation of a driver's license when 12 points are accumulated. In addition, MVA lacked adequate controls to ensure that proper penalties were recorded and that suspensions and revocations were properly removed.

Our audit also disclosed that security over MVA's information systems could be improved. For example we noted that certain sensitive MVA customer information was not adequately protected. Additionally, our audit disclosed a lack of adequate control over the inventory of license plates and registration stickers, including those issued to a contractor for subsequent distribution to auto dealerships.

Finally, a number of internal control and record keeping deficiencies were noted in areas including the Ignition Interlock Program, cash receipts, and insurance compliance.

In our preceding audit report, dated October 19, 2007, we reported that MVA's accountability and compliance level was unsatisfactory in accordance with the rating system we established in conformity with State law. Based on the results of our current audit, we have concluded that MVA has improved its fiscal and compliance operations and, accordingly, MVA's accountability and compliance level is no longer unsatisfactory. It is noteworthy that MVA satisfactorily resolved 23 of the 25 findings in our preceding audit report and, for the 2 findings repeated in this report, MVA had made significant progress toward implementing the recommendations contained in the preceding audit report.

An executive summary of our findings can be found on page 5. The Department's response to this audit, on behalf of MVA, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by MVA.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor

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\* Denotes item repeated in full or part from preceding audit report

# Executive Summary

## Legislative Audit Report on the Motor Vehicle Administration (MVA) October 2010

- **MVA did not verify that reports used to identify cases requiring review for administrative actions were complete. As a result, MVA did not always take appropriate administrative actions against the drivers, such as license suspension or revocation. MVA had not accounted for the receipt of 139 convictions with 12-point violations during a six-month period, nor had MVA taken the appropriate administrative action, if warranted. For 16 of the 20 drivers tested, the license should have been revoked. MVA also lacked adequate controls to ensure that proper penalties were recorded and that suspensions and revocations were properly removed from driving records.**

MVA should ensure that all cases are identified for review and that appropriate administrative actions, such as license suspension or revocation, are taken. MVA should also establish procedures to ensure the appropriate actions are posted to the driving record and that the removal of the suspension or revocation is proper.

- **A number of deficiencies were noted with respect to MVA's information systems security and control. For example, sensitive personal and financial information of *eMVA Store* customers was not adequately protected.**

MVA should take the recommended actions to improve its information systems security and control, including securing sensitive information.

- **MVA had not established adequate controls over the license plate and registration sticker inventories. For example, employees with unrestricted access to the inventory had access to the related automated perpetual inventory records and routinely adjusted the records for returned plates and stickers. In addition, this inventory was not always accounted for as to issued, voided, or on hand.**

MVA should establish adequate controls over the license plate and registration sticker inventories.

- **MVA did not have adequate procedures for the monitoring of Ignition Interlock Program (IIP) cases. For example, caseworkers were allowed to override the IIP violations without supervisory review.**

MVA should modify its procedures to ensure there is an adequately documented supervisory review and approval of IIP case monitoring.

- **A number of deficiencies were noted with respect to MVA's procedures and controls over cash receipts. For example, certain receipts were not always properly secured prior to deposit.**

MVA should take steps to improve accountability and control over all cash receipts, including ensuring that the receipts are adequately secured prior to deposit.

- **Independent supervisory reviews were not always performed to ensure the proper processing of information regarding lapses in insurance coverage.**

MVA should conduct independent supervisory reviews to ensure the proper processing of all insurance lapse information.

- **Internal control deficiencies were also noted regarding controls over disbursements and fraud investigations.**

MVA should take the recommended actions to improve controls in those areas.

## **Background Information**

### **Agency Responsibilities**

The Motor Vehicle Administration (MVA) is part of the Maryland Department of Transportation and is subject to certain provisions of the Transportation Article of the Annotated Code of Maryland. MVA has jurisdiction over a variety of activities related to the ownership and operation of motor vehicles, including the registration and titling of vehicles. MVA maintains a headquarters location in Anne Arundel County and 24 branch offices throughout the State with a total authorized workforce of approximately 1,600 employees. According to MVA records, during fiscal year 2009, MVA's collections, which primarily consisted of motor vehicle excise taxes and vehicle registration fees, totaled approximately \$1.2 billion.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the 25 findings contained in our preceding audit report dated October 19, 2007. We determined that MVA satisfactorily addressed 23 of these findings. The remaining 2 findings are repeated in this report.

In our preceding audit report, we reported that MVA's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. Based on the results of our current audit, we have concluded that MVA has improved its fiscal and compliance operations and, accordingly, MVA's accountability and compliance level is no longer unsatisfactory.



## Findings and Recommendations

### Administrative Actions for License Suspensions and Revocations

#### Background

The Motor Vehicle Administration (MVA) is responsible for processing certain administrative actions, including license suspensions and revocations. MVA receives information daily, consisting primarily of traffic citations and case convictions from the State's district and circuit courts and from other State and local entities, that impact driver's licenses. MVA analyzes this information and determines appropriate administrative actions. For example, license suspensions and revocations generally occur as a result of licensees accumulating an excessive number of points and/or being convicted of committing specific driving-related offenses (such as DUI or DWI). License suspensions also result from other offenses, such as the failure to pay court-ordered child support and the existence of outstanding arrest warrants. When MVA has determined that a license should be suspended or revoked, the decision is entered into the Document Imaging and Workflow System (DIWS), which automatically generates a letter of notification to the licensee advising him or her of the determination. According to its records, during calendar year 2009, MVA processed 232,039 suspensions and 8,531 revocations.

#### **Finding 1**

**MVA did not verify that reports used to identify cases requiring review for administrative actions (for example, revocation of driver's license) were complete. Consequently, we identified 139 cases with 12-point violations during a six-month period that were not subject to review.**

#### Analysis

MVA did not verify the completeness of various computer-generated reports used by MVA to identify cases requiring a manual review for penalty determination purposes. Consequently, there was no assurance that MVA took all appropriate administrative actions against the drivers, such as license suspension or revocation.

Traffic-related conviction information is electronically transmitted from the circuit and district courts to an MVA master file on a daily basis. MVA converts this conviction information to the statutory number of points, and the points are automatically posted to the individuals' driving records. MVA subsequently generates reports listing the cases requiring manual analyses to determine what administrative actions should be taken (for example, accumulation of 12 points generally results in the revocation of a driver's license under State law). Because

the reports were not verified for completeness, certain cases were erroneously omitted and, consequently, administrative actions were not taken for these cases. MVA was unaware of this situation until we brought it to their attention. MVA management subsequently advised us that it suspected a computer programming error during 2008 was the likely reason for the omission of cases from the reports.

Using the MVA master file of court convictions, we extracted all cases with traffic-related convictions involving 12-point violations for the period December 2008 through May 2009. This extraction identified 5,515 such violations. We then performed an automated match of these violations with MVA's data files containing the data used to generate reports of 12-point violations for the same time period. Our match identified 139 of the 5,515 violations were not listed in the data file. Consequently, these 139 cases were not subject to the manual review process and the resulting administrative actions (such as license revocation) were not imposed, when warranted.

We selected 20 of the aforementioned 139 cases and reviewed the driving records, with the assistance of MVA management personnel, to determine the actual outcome of these cases had they been reviewed by MVA. Our test disclosed that 16 of the 20 drivers should have had their licenses revoked. The remaining 4 required no action on MVA's part because the individuals' licenses had been previously revoked.

Our match only included 12-point violations. Based on MVA's suspicions regarding the nature of the programming error, other violations involving fewer points could have similarly been omitted from the manual review process used to determine the administrative actions to be taken.

### **Recommendation 1**

**We recommend that MVA**

- a. establish procedures to verify the completeness of reports generated from its computer system;**
- b. investigate the cause(s) for the aforementioned reporting error and take appropriate corrective action; and**
- c. determine the full extent of the problem and, in consultation with the Office of the Attorney General, take the appropriate actions to address cases which were not previously reviewed because of the reporting error.**

**Finding 2****MVA lacked adequate controls to ensure that penalties were properly approved and recorded in the driving records.****Analysis**

Controls over the review of driving records were inadequate to ensure that the proper penalties, such as suspensions or revocations of driver's licenses, were properly imposed. Upon completion of the manual analysis of the driving records in which employees made an initial determination of the penalties to be imposed based upon traffic-related conviction information received from the courts, supervisory personnel reviewed and recorded the determination in DIWS. However, no system documentation was generated that identified the individual who reviewed and recorded the determination in DIWS. Furthermore, independent verifications were not performed to ensure that the penalty determinations were accurately recorded in the electronic driving records. As a result, assurance was lacking that penalty determinations were independently reviewed and approved, and were properly recorded in the driving records.

Our test of 20 traffic violations (with 8 and 12 points) from March 2009 disclosed 2 instances where the proper penalties were not recorded on the electronic driving records by supervisory personnel. In both of these instances, although the initial penalty determinations were proper (based on our review of the driving records with the assistance of MVA employees), the actual penalties reflected in the driving records were inaccurate. In one case, the driver's license should have been revoked for 8 months but the revocation was not imposed and, in the other case, the revocation period was erroneously reduced by 6 months.

**Recommendation 2****We recommend that MVA**

- a. ensure that penalty determinations are approved by identifiable supervisory personnel and that such approval is documented; and**
- b. verify that approved penalty determinations are accurately recorded in the electronic driving records, and that any discrepancies identified are resolved with supervisory personnel, other than those individuals who recorded the determinations in DIWS .**

**Finding 3**

**MVA lacked adequate controls over critical transactions, such as those pertaining to license suspensions and revocations, on driving records.**

**Analysis**

Controls over critical transactions, such as the removal of suspensions and revocations from motorists' driving records, were inadequate. Supervisors used output reports of all driving record transactions to select transactions and conduct daily reviews, on a test basis, of the related entries recorded on the electronic driving records database (such as suspension of driver's license, legal hearing verdict). We noted the following deficiencies related to these reviews:

- Formal guidelines were not established to specify the types of entries that should be included in the review. As a result, assurance was lacking that a sufficient amount of entries having a more critical impact on an individual's driving record, such as removals of suspensions and revocations, would be included in the reviews. Additionally, the employees who reviewed these transactions for propriety also had the capability to make changes in the electronic driving records database thereby allowing them to review the transactions they initiated.
- Documentation of the daily reviews on the electronic records was not always retained. Specifically, we were advised that, in August 2009, documentation of the daily reviews (which were retained in electronic format) was deleted, in error, from output reports dating back to December 2008. As a result, we could not determine if the reviews from December 2008 to August 2009 were performed.
- Our review of the March 2010 system access report, provided by MVA, disclosed that 136 employees had the ability to remove license suspensions and revocations from the electronic driving records database. We reviewed these access capabilities with various MVA management personnel and were advised that 13 of these employees did not require these capabilities to perform their job duties. Additionally, as of the date of the system access report, one of these employees had been terminated for six months.

**Recommendation 3**

**We recommend that MVA**

- a. establish formal guidelines to ensure that the daily review of transactions posted to the driving records specifically include entries that are of a more critical nature (such as removals of license suspensions and revocations),**

- b. ensure that reviews are documented and that the results are retained for future reference, and
- c. periodically review the system access capabilities over critical transactions and restrict such access to employees who need it for their job duties.

## Information Systems Security and Control

### Background

MVA has jurisdiction over a variety of activities related to the ownership and operation of motor vehicles (for example, driver licensing, vehicle registration and titling). MVA's Office of Information Resources (OIR) provides information technology services to MVA. OIR staff operates and maintains various applications, servers, and local networks throughout MVA's numerous locations, including the headquarters location and its branch offices located throughout the State. OIR interacts with various contractors that provide information technology related services to MVA. In addition, the Department of Transportation – Office of Transportation Technology Services operates a mainframe computer for certain MVA applications.

### Finding 4

**MVA customers' sensitive personal and financial information was not adequately protected.**

### Analysis

MVA customers' sensitive personal and financial information was not adequately protected. Specifically, we noted the following conditions:

- *eMVA Store* customers' names and related bank account information (for example, bank account numbers) were stored on a publicly-accessible web server in encrypted form. However, the related encryption key, which could be discovered and used to decrypt the encrypted files, was also stored on this server. We determined that approximately 7,900 records existed on this server with encrypted customer names and bank account information. The *eMVA Store* provides online services to the public such as, renewing a vehicle's registration and obtaining a copy of a driving record.
- *eMVA Store* customers' names and driver license information (such as soundex number) were unnecessarily stored in plain text on an *eMVA Store* database server. We identified approximately 23,500 records on this server with the aforementioned information.

- A database used to record credit card refunds, which were related to transactions processed in several MVA applications, stored customers' names and credit card numbers in clear text. We identified over 3,500 customer accounts with this information. In addition, no password was required to open this database, and 28 MVA logonids had unnecessary read access to this database.

This sensitive personal and financial information is commonly sought for use in identity theft. Accordingly, appropriate information system security controls need to exist to ensure that this information is safeguarded and not improperly disclosed. MVA's protection of customers' sensitive personal and financial information has substantially improved since the preceding audit (for example, the preceding audit commented on over 510,000 customer records being stored in plain text on a server).

#### **Recommendation 4**

**We recommend that MVA ensure that customers' sensitive information is adequately secured. Specifically, we made detailed recommendations which, if implemented, should provide for adequate protection over such information.**

#### **Finding 5**

**Monitoring and access controls over critical systems were not adequate.**

#### **Analysis**

Access controls over the vehicle registration system files and monitoring controls over mainframe production files and a critical database were not adequate. Specifically, we noted the following conditions:

- Eleven employees had been assigned unnecessary and unrecorded access to a critical transaction, which was used to add and remove vehicle registration flags (warning indicators for conditions such as vehicle insurance lapses) from MVA records. Consequently, these employees could make unauthorized or erroneous changes that could impact vehicle registrations and remain undetected by management.
- The procedures for the review of direct file accesses against critical mainframe files as recorded on a daily security report were inadequate. Specifically, reviews were only performed for access violations; direct file accesses against critical files were not reviewed for propriety. In addition, this

daily security report was only reviewed by MVA for 68 (from one department) of the more than 3,500 MVA userids.

- As of February 2010, mainframe security reports, which identify changes to security software userids and critical access rules, had not been reviewed since July 2009. As a result, there was a lack of assurance as to the propriety of the userid and access rule changes made since July 2009.
- Certain critical security and audit-related events (for example, when database roles are added) applicable to the driver licensing system's database were not logged. Accordingly, significant database security-related events could occur and go undetected, thus permitting unauthorized or inappropriate activities to adversely affect the integrity of the database production data.

#### **Recommendation 5**

**We recommend that the MVA implement appropriate access and monitoring controls over critical databases and production files. Accordingly, we made detailed recommendations to MVA which, if implemented, should provide the necessary access and monitoring controls.**

#### **Finding 6**

**Controls over the virtual server environment were not adequate.**

#### **Analysis**

Controls over the virtual server environment were not adequate. Specialized software developed in recent years allows for a single physical host server's resources (that is, memory, CPU, and storage) to be defined and subdivided into multiple virtual servers which can each operate as a separate, unique server. As of January 2009, MVA was using 14 physical base host servers to host 56 virtual servers. Examples of MVA applications operating on virtual servers include the *eMVA Store* website and application and the MVA's primary website.

Specifically, we noted the following conditions:

- Two publicly-accessible virtual servers were included in a network segment with numerous critical non-public virtual servers rather than being isolated in a separate network segment. These two servers, which could potentially be compromised, exposed the non-public servers to attack from the Internet. Recommended security procedures include placing publicly-accessible servers in a separate traffic filtered network segment to protect those servers, as well as other critical servers, within an entity's internal network.

- Three physical servers, which hosted *eMVA Store* virtual servers, were running vulnerable software. Specifically, as of January 19, 2010, these three servers were using software that had not been updated for numerous critical related software patches released after July 9, 2009. The Department of Information Technology's *Information Security Policy* requires that all devices have updates and patches installed on a timely basis to correct significant security flaws.
- MVA was not periodically backing up the configurations of the three aforementioned host servers. The software vendor recommends that backups be periodically made of the host server configurations. In the event of a problem which would destroy or corrupt these three servers, all copies of their configurations could be lost. Such a problem could result in significant delays (of an undetermined period of time) in restoring MVA's information systems above and beyond the expected delays that would exist if secure backups of the aforementioned configurations were readily available.
- Certain network security option settings on the aforementioned three host servers' software were not properly configured in accordance with the software vendor's recommended security settings. As a result, this weakened network level security for the virtual servers configured on these host servers.

### **Recommendation 6**

**We recommend that MVA**

- relocate all publicly-accessible virtual servers to a separate network segment;**
- apply software patches in a timely manner to correct significant security-related vulnerabilities;**
- regularly backup its current host servers' configurations and store those backup files at an off-site, secure, environmentally-controlled location;**  
**and**
- configure the software on its host servers to help ensure adequate security over the resident virtual servers.**

## **Vehicle Titling and Registration**

### **Background**

State law provides that MVA is responsible for vehicle titling and registration and that all vehicle dealerships must be licensed by MVA. MVA has contracted with two vendors, and each vendor maintains an electronic vehicle registration and titling (ERT) system, which is used to interface between participating dealerships

and MVA. (Dealerships, which do not use the ERT system, manually complete title and registration forms and submit them to an MVA branch office for processing.)

MVA uses multiple types of inventory for their operations, including license plates and registration stickers. Inventory is stored and records are maintained by personnel in the central warehouse and headquarters. Personnel in the warehouse are responsible for ensuring that a working inventory is distributed to branches, headquarters, and dealerships participating in the ERT system. A third-party contractor is under contract with the two ERT vendors to deliver inventory to the dealers participating in the ERT program.

According to MVA records, as of August 2009, there were 2,026 licensed vehicle dealerships, of which 917 participated in the ERT program, including 335 out-of-state dealerships. During fiscal year 2009, MVA collected vehicle excise taxes and related fees totaling approximately \$992 million according to its records.

#### **Finding 7**

**Proper controls were not established over the license plate and registration sticker inventories at the central warehouse.**

#### **Analysis**

MVA had not established adequate controls over its license plate and registration sticker inventories at its central warehouse, including those to be destroyed.

Specifically, our review disclosed the following conditions:

- Four custodians of the MVA central warehouse also had access to the related automated perpetual inventory records and routinely adjusted those records for returned license plates and registration stickers. As a result, irregularities involving the plates and stickers may not readily be detected. The Department of General Services' *Inventory Control Manual* requires that the duties of inventory record keeping and custody be segregated.
- MVA did not adequately control the destruction of returned and unused license plates and registration stickers. MVA placed the license plates to be destroyed in secure containers, which were shipped to Maryland Correctional Enterprise (MCE) for destruction. However, MVA did not receive any documentation from MCE attesting to the destruction of these license plates. In addition, the destruction of returned and unused registration stickers, which was performed at MVA's central warehouse, was not witnessed by at least two employees. According to MVA records, approximately 38,000 license

plates and 278,000 registration stickers were deleted from the inventory records as destroyed during our audit period.

#### **Recommendation 7**

**We recommend that MVA**

- a. ensure that inventory custodians not have access to the related perpetual inventory records, and**
- b. ensure that certification is received from MCE regarding destroyed license plates and that the destruction of registration stickers is witnessed by at least two employees who are independent of the inventory functions.**

#### **Finding 8**

**MVA did not adequately account for the license plates and registration stickers issued to dealerships participating in the ERT program.**

#### **Analysis**

MVA lacked adequate accountability and control over license plates and registration stickers used by dealerships in the ERT program. These dealerships notified the two ERT vendors of needed plates and stickers. On a daily basis, the two ERT vendors forwarded these requests to a third-party contractor, with whom the two ERT vendors had entered into an agreement. In this regard, this contractor was to take delivery of the plates and stickers from MVA, distribute them to the dealerships, and maintain the related inventory records. According to its records, during our audit period, approximately 1.1 million license plates and 3.6 million registration stickers were issued to the third-party contractor, on behalf of the ERT vendors, for distribution. However, MVA did not periodically account for the license plates and registration stickers issued to the third-party contractor as to issued to dealers, returned to MVA, or on hand with the contractor. Consequently, there was a lack of assurance that plates and stickers were distributed only for authorized transactions. Although the contractor provided information regarding the inventory issued to dealers to the MVA internal auditors for their use in the ERT accountability audits performed annually at selected participating dealerships, there was no accounting as to the entire number of license plates and registration stickers issued to the third-party contractor.

#### **Recommendation 8**

**We recommend that MVA periodically account for license plates and registration stickers issued to the third-party contractor as to issued to dealers, returned to MVA, or on hand with the contractor.**

## **Ignition Interlock Program**

### **Background**

Beginning in 1988, State law allowed the use of an ignition interlock device as an additional penalty to help prevent individuals convicted of alcohol-related driving violations from driving while intoxicated. In 1996, the Maryland Ignition Interlock Program (IIP) was established to formalize the monitoring process. Drivers are enrolled in the program for a certain time period, as a result of a court order, administrative hearing order, or MVA Medical Advisory Board recommendation, or may voluntarily enroll in the program in lieu of a driver's license suspension or revocation.

Drivers enrolled in IIP are required to have an interlock device installed in their vehicles by a certified vendor approved by MVA. The driver must blow into the interlock device prior to starting the vehicle and, if alcohol is detected at a level higher than a pre-established blood alcohol content level, the vehicle will not start. The data recorded on the interlock device's memory are electronically uploaded monthly to the interlock vendor, which then reports the information to MVA. MVA maintains IIP data for each driver in an automated tracking system which also sends notification letters to drivers who have incurred a violation during the month. Effective November 3, 2008, State regulations required that any driver who had violated IIP requirements for four monthly reporting periods (that is, has received four violations) be removed from IIP, and that the suspension or revocation of the driver's license prior to acceptance into IIP be reinstated. According to MVA records, during fiscal year 2009, 6,249 drivers were newly enrolled into the IIP and, as of June 2009, there were 7,124 drivers actively enrolled in the IIP.

### **Finding 9**

**MVA did not adequately monitor IIP cases resulting in participants being improperly allowed to resume normal driving privileges.**

### **Analysis**

IIP cases were not adequately monitored resulting in MVA not always taking appropriate actions against drivers, such as removing them from IIP and reinstating their prior penalty (for example, revocation of driver's license). We noted the following deficiencies:

- Manual overrides of IIP violations recorded in MVA's automated tracking system by caseworkers were generally not reviewed and approved by independent supervisory personnel. Specifically, manual overrides were not approved on a case-by-case basis. Furthermore, although MVA performed

comprehensive reviews of selected IIP cases, cases containing manual overrides were not specifically targeted for review. Additionally, the issues raised by supervisory personnel who conducted the case reviews (such as appropriateness of IIP violation overrides initiated by case workers, and the related corrective action taken) were not documented, and the number of cases selected for review (20 cases each week) was limited. MVA policies and procedures allow caseworkers to override IIP violations primarily based on explanations provided by participants.

- In certain instances, MVA failed to obtain sufficient documentation to justify manual overrides, which may have resulted in an improper reduction in the number of IIP violations. Our test of 20 calendar year 2008 and 2009 IIP cases disclosed that, for 2 of the 4 cases in which case workers granted overrides of IIP violations, MVA did not subsequently take the proper actions. For one case, even though no supporting documentation (such as statements from the IIP vendor) was on file for five violation waivers, the participant was permitted to complete the IIP, in violation of State regulations. For the other case, there was an override of one violation (a blood alcohol level measured by the participant's device that exceeded the allowable level) without the IIP vendor asserting that the violation resulted from a malfunction of the installed device, as required by State regulations. This action reduced the number of violations for this participant to three, thereby allowing the participant to successfully complete the IIP.

### **Recommendation 9**

#### **We recommend that**

- a. supervisory personnel review and approve manual overrides on a timely basis,**
- b. case managers adequately document the results of their comprehensive reviews of IIP cases, and**
- c. MVA ensure that completed cases, in which drivers have successfully completed the program, are subject to review prior to the driver being removed from the program.**

## Cash Receipts

### **Finding 10**

**Adequate accountability and control had not been established over certain collections.**

#### **Analysis**

MVA had not established adequate accountability and control over certain collections. For example, checks received in the remittance processing room were not adequately secured prior to deposit. Specifically, checks that had been processed for deposit, and unopened mail containing checks, were left unsecured in open bins until being deposited the next business day. Consequently, the 11 employees that worked in this room had unrestricted routine access to the checks prior to deposit. Additionally, while we were advised that the room was always locked and never left unattended, on one of our visits, we noted that the room was unlocked and unattended.

During our audit, we reviewed the procedures and controls over cash receipts collected at various locations which, according to MVA records, totaled \$95.5 million during fiscal year 2009 (including \$89 million received by mail at MVA headquarters and processed through the remittance processing room).

#### **Recommendation 10**

**We recommend that MVA**

- a. properly secure all collections, and**
- b. ensure that the remittance processing room is locked, when unattended.**

## Insurance Compliance

### **Finding 11**

**Independent supervisory reviews were not always performed to ensure the proper processing of insurance lapse information.**

#### **Analysis**

Independent supervisory reviews were not always performed to ensure the proper processing of insurance lapse information. Specifically, lapses of insurance reported to MVA were assigned to eight staff employees for processing, investigating, and entry into the automated insurance system. Upon entry into the system, cases were approved by supervisory personnel. However, these staff employees also had the authority to close certain cases (for example, if the lapse

was less than five days) without conducting an investigation, without obtaining supervisory approval, and without entering the cases into the system. Furthermore, documentation of the actions taken that prompted the closure of these cases was not maintained, nor were these closed cases logged to facilitate their retrieval for review. Consequently, there was a lack of assurance that all insurance lapses were properly processed.

State law provides that the owner of a motor vehicle that is registered in the State shall maintain the required insurance coverage for the vehicle during the registration period. In addition, the law requires insurance providers to notify MVA of all lapses in vehicle insurance coverage, and for MVA to suspend the registrations of those vehicles for which lapses are reported until the required coverage is replaced, the vehicle owner submits related supporting documentation to MVA, and any assessed penalty fee is paid. The law further requires MVA to notify the vehicle owner of the registration suspension and for the owner to surrender to MVA the vehicle license plates within 48 hours of such notification.

#### **Recommendation 11**

**We recommend that MVA**

- a. log closed insurance lapse cases that were not entered into the automated insurance system in order to establish accountability over these cases, and retain documentation regarding the reason for their closure; and**
- b. conduct independent supervisory reviews to ensure the proper processing of such insurance lapse information.**

#### **Disbursements**

##### **Finding 12**

**MVA had not established adequate controls over the processing of disbursement transactions.**

##### **Analysis**

MVA had not established adequate controls to prevent unauthorized disbursement transactions and to ensure that payments were only made for actual goods received. Specifically, we noted the following conditions:

- MVA did not fully use the available security features of the Maryland Department of Transportation's Financial Management Information System (FMIS) to restrict user access and to prevent unauthorized disbursement transactions. Specifically, four employees could initiate and approve certain direct voucher disbursement transactions that were not subject to independent

approval. Furthermore, two of these employees could release these disbursements to the Comptroller of Maryland – General Accounting Division for payment. As a result, these employees could process unauthorized disbursement transactions which may not be readily detected. According to the State’s accounting records, during fiscal year 2009, MVA used FMIS to process such direct voucher disbursements totaling approximately \$1.2 million. Similar conditions were commented upon in our two preceding audit reports.

- MVA did not always monitor its contracts to ensure that goods or services were received prior to payment of the related invoices. We tested four contracts totaling \$33.2 million and noted that, for one \$13.9 million contract for hardware support and repairs related to maintaining the driver licensing system, there was a lack of evidence that certain goods were received prior to payment. Specifically, on July 9, 2008, MVA paid \$765,680 for 235 replacement cameras and related installation fees without determining whether the equipment was received and properly installed at MVA branch locations. In this regard, since the vendor invoice stated that the 235 cameras had been delivered, MVA advised us that no attempts were made to contact branch locations directly to verify that the cameras had been received and installed. According to MVA records, the earliest documentation of receipt of the cameras was August 2008.

### **Recommendation 12**

**We recommend that MVA**

- a. fully use the available FMIS security features by establishing independent online approval requirements for all critical disbursement transactions (repeat), and**
- b. establish adequate procedures for monitoring contracts to ensure that documentation supporting the receipt of goods is received prior to processing the related vendor invoice.**

## **Fraud Investigations**

### **Finding 13**

**MVA did not always sufficiently investigate possible fraudulent activity.**

### **Analysis**

MVA did not always sufficiently investigate possible fraudulent activity by expanding testing during its internal investigations when evidence of possible criminal or unethical conduct by MVA employees was identified. We reviewed

10 calendar year 2008 and 2009 internal investigations, conducted by MVA's Investigative and Security Services Division, of possible criminal or unethical conduct by MVA employees; all 10 employees were either suspended or terminated. However, in 6 of the 10 investigations, additional testing was not conducted beyond the specific transactions (such as issuing a fraudulent license) that were the subject of the investigations. This is significant because, for 5 of the 6 investigations in which additional testing was not performed, including the example above, no criminal charges were filed against the employees, or the court cases did not result in criminal convictions, due to the limited number or small dollar amount of transactions. For the remaining investigation, the individual received probation before judgment. A similar condition was commented upon in our preceding audit report.

**Recommendation 13**

**We recommend that MVA expand testing for internal investigations when evidence of possible criminal conduct by MVA employees is identified (repeat).**

## **Audit Scope, Objectives, and Methodology**

We have audited the Department of Transportation – Motor Vehicle Administration (MVA) for the period beginning December 1, 2006 and ending July 9, 2009. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MVA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included the titling and registration, licensing, license revocation, and insurance compliance processes, as well as the procurements and disbursements for MVA's operating expenditures, payroll, cash receipts, and equipment. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MVA's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain payroll support services provided by the State Highway Administration to MVA. These payroll support services are included within the scope of our audit of the State Highway Administration.

MVA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

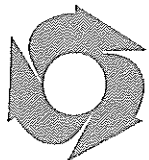
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MVA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MVA that did not warrant inclusion in this report.

In our preceding audit report, we reported that MVA's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. Our current audit disclosed MVA has improved its fiscal and compliance operations and, accordingly, MVA's accountability and compliance level is no longer unsatisfactory. Our rating conclusion has been made solely pursuant to the aforementioned law and rating guidelines approved by the Joint Audit Committee. The rating process is not a practice prescribed by professional auditing standards.

The Department of Transportation's response, on behalf of MVA, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.

**APPENDIX**



**Maryland Department of Transportation**  
The Secretary's Office

**Martin O'Malley**  
Governor

**Anthony G. Brown**  
Lt. Governor

**Beverley K. Swaim-Staley**  
Secretary

**Harold M. Bartlett**  
Deputy Secretary

October 8, 2010

Mr. Bruce A. Myers, CPA  
Legislative Auditor  
Office of Legislative Audits  
Department of Legislative Services  
Room 1202  
301 West Preston Street  
Baltimore MD 21201

Dear Mr. Myers:

Enclosed please find the Department's responses to the draft Legislative Auditor's Report dated September 22, 2010 for the Maryland Department of Transportation - Motor Vehicle Administration for the period beginning December 1, 2006 and ending July 9, 2009. Additionally, an electronic version of this document has been sent to your office via e-mail (file name: LegAuditMVASept2010) to [response@ola.state.md.us](mailto:response@ola.state.md.us).

If you or your staff have any questions or need additional information, please do not hesitate to contact me or Mr. David L. Fleming, Finance Director. Mr. Fleming can be reached at 410-865-1035.

Sincerely,

A handwritten signature in black ink, appearing to read "Beverley K. Swaim-Staley".

Beverley K. Swaim-Staley  
Secretary

Enclosure

cc: Ms. Linda Ashburn, Chief Deputy Internal Auditor, Motor Vehicle Administration  
Mr. Harold M. Bartlett, Deputy Secretary, Maryland Department of Transportation  
Mr. Rick A. Bilenky, Chief Internal Auditor, Motor Vehicle Administration  
Mr. Milton Chaffee, Chief Deputy Administrator, Motor Vehicle Administration  
Mr. David L. Fleming, Chief Financial Officer, Maryland Department of Transportation  
Mr. John T. Kuo, Administrator, Motor Vehicle Administration  
Mr. Joseph J. Lambdin, Director, Office of Audits, Maryland Department of Transportation

**Maryland Department of Transportation  
Motor Vehicle Administration  
Draft Audit Report Responses  
Period December 1, 2006 to July 9, 2009**

**Administrative Actions for License Suspensions and Revocations**

**Finding 1**

**MVA did not verify that reports used to identify cases requiring review for administrative actions (for example, revocation of drivers license) were complete. Consequently, we identified 139 cases with 12-point violations during a six-month period that were not subject to review.**

The Administration concurs with the auditors' recommendations.

**Response 1a:** The MVA is currently working with its IT development and infrastructure staff to establish electronic data tracking procedures to verify the receipt and entry of all suspensions and revocations to driving records. We will also modify existing programs to facilitate data verification which will be completed by December 2011.

**Response 1b:** Immediate action was taken to identify and resolve the cause behind the omission of license revocations from the electronic record. The issue surrounds a limited category of licensed drivers and deals with an error in the coding of reports utilized by the Administration to record revocation actions.

**Response 1c:** The MVA has thoroughly reviewed the case background of individuals whose cases were not properly processed through the electronic record and we have taken appropriate action. The MVA routinely consults with the Attorney General's office on these types of cases.

**Finding 2**

**MVA lacked adequate controls to ensure that penalties were properly approved and recorded in the driving records.**

The Administration concurs with the auditors' recommendations.

**Response 2a:** The MVA is conducting a thorough review of its penalty determination approval process in order to ensure that all necessary penalty actions are taken and properly documented. This review will be completed by December 2010.

**Response 2b:** The Administration has initiated a dual sign-off approval process where the review of information by supervisory and front-line staff responsible for entering the conviction record information into DIWS will be recorded. In addition, the MVA will be pursuing modifications to DIWS to establish a more automated system for the determination and recording of conviction data. Procedural controls will be completed by December 2010. System enhancements will be completed by December 2011.

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**Finding 3**

**MVA lacked adequate controls over critical transactions, such as those pertaining to license suspensions and revocations, on driving records.**

The Administration concurs with the auditors' recommendations.

**Response 3a:** The MVA will update established procedures relating to record entry audits. Specifically, we are developing enhanced procedures that will commence by December 2010 that provide additional focus on critical transaction entries (such as the addition and removal of suspensions and revocations) and modify the audit sampling for these transactions types. In addition, further control measures will be established that require record entry audits to be conducted by staff in units outside of an employee's currently assigned business function.

**Response 3b:** A programming modification solution has been implemented to ensure electronic audit documentation is retained and secured in the future.

**Response 3c:** The MVA immediately removed employee access when the issue was brought to our attention. We have taken steps to ensure that routine reviews are conducted in order to ensure that inappropriate access does not take place.

### **Information Systems Security and Control**

**Finding 4**

**MVA customers' sensitive personal and financial information was not adequately protected.**

**Response 4:** The Administration concurs with the auditors' recommendation. This finding and recommendation was immediately addressed upon notification. The Administration has updated its systems to provide adequate protection over such information, including increased usage of encryption (and other measures) to protect personally identifiable information. A review of the system did not reveal any inappropriate use of the data.

**Finding 5**

**Monitoring and access controls over critical systems were not adequate.**

**Response 5:** The Administration concurs with the auditors' recommendation. The MVA has updated its policy regarding the reviews of MVA user access rights to ensure that the current access is accurate and reflects job duties. Additionally, expanded and enhanced logging of activity has been put in place for security, audit, and investigative purposes.

A security audit trace template software was also added to further audit server activity. Logs are reviewed, saved daily and retained for audit verification purposes. An immediate review was undertaken to remove any unnecessary access to the system. In addition, an internal review of the system did not reveal any unauthorized system activities.

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**Finding 6**

**Controls over the virtual server environment were not adequate.**

The Administration concurs with the auditors' recommendations.

**Response 6a:** The public facing web servers are now separated from non-public servers on separate network segments.

**Response 6b:** Additional measures have been taken to further ensure that necessary updates are tested and installed in a timely manner.

**Response 6c:** Critical system configuration information is backed up regularly; these backups are stored in a secure offsite facility.

**Response 6d:** The appropriate configuration changes were made to further ensure adequate security.

### **Vehicle Titling and Registration**

**Finding 7**

**Proper controls were not established over the license plate and registration sticker inventories at the central warehouse.**

The Administration concurs with the auditors' recommendations.

**Response 7a:** Administrative rights for inventory custodians have been changed to "read only" to prevent modifications to the perpetual inventory records.

**Response 7b:** As of May 2010, MCE began providing a monthly report, which is witnessed by two MCE representatives, detailing the poundage of plates destroyed and recycled. Stickers will be checked and verified for accuracy by MVA warehouse personnel based on information supplied by the customer. The physical destruction of stickers will be witnessed and documented by two MVA employees. Large quantities of stickers are now taken to the incinerator for disposal and two MVA representatives are present to witness and document the destruction.

**Finding 8**

**MVA did not adequately account for the license plates and registration stickers issued to dealerships participating in the ERT program.**

**Response 8:** The Administration concurs with the auditors' recommendation. An audit of the third-party contractor was initiated on May 3, 2010 and the Internal Auditing Division has issued a report on the findings. Results of the audit have been forwarded to the contractor for appropriate action to be taken. An inventory review will be completed annually.

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**Ignition Interlock Program**

**Finding 9**

**MVA did not adequately monitor IIP cases resulting in participants being improperly allowed to resume normal driving privileges.**

The Administration concurs with the auditors' recommendations.

**Response 9a:** The Administration will update established procedures and make system modifications relating to the override of program violations. Specifically, the DIWS system within the Driver Wellness and Safety Division will be modified to require the recording of a reason for all violation overrides. This will be completed by the end of 2011. The frequency of supervisory reviews for violation overrides will be increased through the use of a specially designated supervisory review function.

**Response 9b:** Updates to established procedures for case managers are being developed that address appropriate case review protocols and will commence by December 2010. Also, case managers will receive routine training on the necessary documentation.

**Response 9c:** Existing procedures require all individuals enrolled in the interlock program to have their cases reviewed by a case manager prior to the initiation of removal (failure) or graduation (successful completion) from the program. The automated ignition interlock monitoring system randomly pulls a percentage of these cases which are reviewed by supervisory personnel as part of standard auditing procedures.

**Cash Receipts**

**Finding 10**

**Adequate accountability and control had not been established over certain collections.**

The Administration concurs with the auditors' recommendations.

**Response 10a:** Immediate action was taken once this issue was discovered. When the remittance processing room is unoccupied, all checks are secured in a locked storage cabinet and signed off by two employees. This procedure was implemented on August 15, 2009.

**Response 10b:** Additionally, a new door with the appropriate closure mechanism to ensure the door automatically shuts and locks was installed to the remittance processing room in September 2009.

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**Insurance Compliance**

**Finding 11**

**Independent supervisory reviews were not always performed to ensure the proper processing of insurance lapse information.**

The Administration concurs with the auditors' recommendations.

**Response 11a:** System enhancements will be completed by spring 2011. The system will log close-no cases that were entered into the system in order to establish accountability over these cases. A close-no case is a situation where the initial review indicates there is no compliance violation and therefore no need to set up an official case. Documentation will be retained regarding the reason for their closure.

**Response 11b:** Random supervisory reviews will be conducted based upon the close-no case log documentation to ensure proper case closures.

**Disbursements**

**Finding 12**

**MVA had not established adequate controls over the processing of disbursement transactions.**

The Administration concurs with the auditors' recommendations.

**Response 12a:** A solution was implemented on September 28, 2009 and the legislative auditors confirmed that the Administration is in compliance on March 9, 2010. MVA has fully used the available FMIS security features in accordance with the issue cited in the last two audits. Quarterly security reports are run based on the criteria set forth in the State of Maryland FMIS Internal Control and Security Policy and Procedures Manual.

**Response 12b:** The Administration has ensured that all paperwork is received by the contracting party before approving the invoice. All equipment cited in the audit finding has also been verified as properly received.

**Fraud Investigations**

**Finding 13**

**MVA did not always sufficiently investigate possible fraudulent activity.**

**Response 13:** The Administration concurs with the auditors' recommendation. The Administration will ensure that proper documentation will be included whenever expanded testing is conducted on employee fraud investigations. Note that although no documentation was on file, the Administration is confident that initially a cursory expanded examination of the employee's work was conducted by the employee's manager and/or the assigned investigator. This examination is a routine practice performed to determine the scope of the investigation, but in the past was frequently not documented.

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