

Audit Report

**Department of Transportation
Motor Vehicle Administration**

November 2017



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

For further information concerning this report contact:

**Department of Legislative Services
Office of Legislative Audits**

301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Phone: 410-946-5900 · 301-970-5900

Toll Free in Maryland: 1-877-486-9964

Maryland Relay: 711

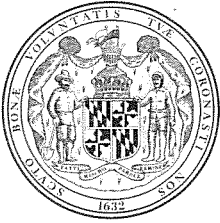
TTY: 410-946-5401 · 301-970-5401

E-mail: OLAWebmaster@ola.state.md.us

Website: www.ola.state.md.us

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

November 22, 2017

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Transportation – Motor Vehicle Administration (MVA) for the period beginning July 25, 2012 and ending December 14, 2015. 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.

A focused internal investigation conducted by MVA in 2016 identified 270 fraudulent federally non-compliant driver's licenses and identification cards (products) that had been issued based on counterfeit documents at one branch over a six-month period. Our audit disclosed, however, that MVA's investigation was not expanded to determine the full extent of such occurrences and MVA did not alter its procedures to address the related control deficiencies.

Our expanded analysis identified many additional products that may have been improperly issued; accordingly, further investigation is warranted. For example, we found 329 additional products that appeared questionable. State law, effective January 1, 2014, authorized MVA to issue federally non-compliant products to Maryland residents who do not have lawful authority to be in the United States, provided these individuals filed Maryland income tax returns for the previous two years. MVA referred the results of its internal investigation to appropriate state and federal law enforcement agencies and terminated two employees.

MVA had not established sufficient controls over its inventory stock of driver's license and identification cards and could not account for 7,500 cards received in June 2016. These cards exhibit certain graphics referring to their purpose and identifying the State of Maryland and, accordingly, could be used for improper purposes. Our audit also disclosed that certain driving records that had

accumulated a specified number of points due to traffic offenses incurred were not being reviewed as required for possible administrative action, such as license suspension or revocation. Our tests identified certain drivers who had avoided administrative action because their records had not been reviewed as required.

For a \$21.4 million information technology (IT) contract, MVA could have procured more favorable rates for certain labor categories had the contract been procured through a master contract maintained by the State's Department of Information Technology. In addition, MVA did not adequately monitor several IT contracts and review the related billings to ensure hours billed were reasonable, the receipt of all deliverables, and compliance with all contract terms. Furthermore, MVA did not adequately control vendor bids that were submitted electronically.

Effective controls were not established over MVA's virtual servers associated with its *eStore* and numerous employee workstations were not adequately secured. Finally, a number of other internal control and record keeping deficiencies were noted in areas including cash receipts, the Ignition Interlock Program, and corporate purchasing cards. For example, employees responsible for reviewing and approving changes to critical information in the Ignition Interlock Program, such as the period a driver was required to be in the Program, were also granted access allowing them to change this information.

The Maryland Department of Transportation'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 the course of this audit by MVA.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "TJ Barnickel III", with a stylized flourish at the end.

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Motor Vehicle Administration (MVA) is part of the Maryland Department of Transportation and functions under 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 1,700 employees. According to MVA records, during fiscal year 2016, MVA's collections, which primarily consisted of motor vehicle excise tax receipts and vehicle registration fees, totaled \$1.7 billion. According to the State's accounting records, MVA's expenditures totaled approximately \$220.3 million during fiscal year 2016, of which \$61.2 million was for contractual services.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the nine findings contained in our preceding audit report dated May 19, 2014. We determined that MVA satisfactorily addressed eight of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Licensing – Controls Over Issuance and Inventory

Background

The Motor Vehicle Administration (MVA) is responsible for issuing commercial and non-commercial driver's licenses, license renewals, corrected licenses, learner's permits, and personal identification cards. MVA uses a computerized driver's licensing application system that includes an electronic license application process that performs various verifications, such as matching the applicant's social security number (SSN) with a database maintained by the federal Social Security Administration.

Chapter 309, Laws of Maryland 2013, effective January 1, 2014, authorized MVA to issue federally non-compliant products (driver's licenses and identification cards) to Maryland residents who do not have a SSN and who do not have lawful authority to be in the United States, provided that, for the previous two years, these individuals filed Maryland income tax returns or were claimed as a dependent on returns filed for those years. These products cannot be used for official purposes as determined by the Secretary of the United States Department of Homeland Security; for example, they cannot be used to purchase firearms, access commercial flights, or enter federal buildings.

According to MVA's records, during fiscal year 2016, MVA processed approximately 6.7 million licensing transactions, which included 889,000 new driver's licenses resulting in \$53.9 million in revenue. As of August 25, 2016, there were approximately 4.8 million active products, including at least 82,660 federally non-compliant products.

Finding 1

Although an internal investigation revealed that MVA issued 270 fraudulent federally non-compliant driver's license (DL) and identification (ID) cards, the scope of the investigation was limited and we found many additional products that may have been issued improperly. MVA also did not alter its procedures to correct the related control deficiencies.

Analysis

Although its internal investigation identified a number of federally non-compliant DL and ID cards that MVA had improperly issued at one branch location based on counterfeit documents, MVA did not alter its procedures to address the related control deficiencies. Furthermore, MVA did not expand the scope of its investigation to determine the full extent of such occurrences. Our data analyses

identified many more federally non-compliant DL or ID cards that could have been improperly issued because of the use of fraudulent documentation by applicants.

An internal MVA investigation revealed that 270 federally non-compliant DL or ID cards had been improperly issued to walk-in applicants based on counterfeit documents presented at an MVA branch location during a six-month period. In addition to the documentation requirements for all applicants regarding proof of identity and Maryland residency, applicants for federally non-compliant products must also provide a letter from the Comptroller of Maryland, which reflects a control number unique to each individual filer, as evidence of Maryland income tax filings for the previous two years. It is a violation of State law for applicants to knowingly make a false statement or to use false, fictitious, or fraudulently altered documents when applying for a Maryland DL or ID card, which can result in penalties of \$500 and/or two months in jail.

MVA conducted this internal investigation based on an employee tip about suspicious or unethical activity on the part of two MVA customer agents at this branch. MVA's investigation included a review of all the products issued by these two customer agents for the period from October 13, 2015 through March 7, 2016. MVA referred the results of its investigation to the Maryland Attorney General – Criminal Division, the Governor's Office, the U.S. Attorney's Office for the District of Maryland, and the U.S. Department of Homeland Security's Immigration and Customs Enforcement. As a result of MVA's investigation, two employees were terminated and the 270 DL or ID cards were canceled.

Internal Control Deficiencies Were Not Addressed

Although the resultant report identified control deficiencies with MVA's procedures for processing applications for individuals who applied in person at branch locations without an appointment, MVA did not change its procedures. For example, MVA did not stop processing walk-in applications, nor did it institute certain automated verification procedures for such applications that are performed when applicants schedule appointments in advance.

Applicants for a non-compliant DL or ID card are instructed to make an appointment using MVA's Central Scheduling System and apply in person at an MVA location. During the appointment-scheduling process, an automated verification is performed through the System to ensure that the applicant received a valid letter (with a unique control number) from the State Comptroller indicating the individual met the tax filing requirements under State law and that the Comptroller letter control number was not previously used.

If the applicant walked in without scheduling an appointment, this automated verification was not performed. Specifically, during the walk-in application process, only a limited verification was performed using MVA's driver's licensing application system (DLS) to ensure the Comptroller letter control number was in the proper format and was a valid number. There was no automated verification in DLS to ensure the Comptroller letter control number was issued to that applicant and was not previously used to obtain a product.

In addition, MVA did not conduct periodic reviews of its records to identify instances in which the same Comptroller letter control number was used by multiple individuals to obtain a product, and to identify instances in which an applicant's name did not agree to the name assigned to the Comptroller letter control number, so that appropriate follow-up action could be taken.

OLA's Expanded Analysis Identified Additional Improperly Issued DL and ID Cards

MVA's internal investigation was focused on a limited number of employees for a relatively short period and was not expanded to determine the full extent of such occurrences. Therefore, we conducted certain data analyses and matches to determine whether additional DL or ID cards could have been improperly issued. Specifically, using MVA's DLS and its official record of Maryland DL and ID cards, we extracted data for all active products, as of August 25, 2016, identifying 4.8 million products, of which 82,660 were obtained using a Comptroller letter control number. As a result, we identified 329 individuals who may have improperly received federally non-compliant DL or ID cards due to the use of a fraudulent Comptroller letter control number.

- Multiple individuals used the same Comptroller letter control number to obtain DL or ID cards. Specifically, 225 individuals used 62 Comptroller letter control numbers to obtain a DL or ID card. For example, one Comptroller letter control number was used to obtain 16 DL or ID cards. Since every applicant must obtain his or her own unique control number, the use of the same number by multiple applicants would suggest fraudulent use of that number.
- We identified a number of instances in which the names on the Comptroller's records of letters issued (as received by MVA from daily files from the Comptroller containing data for a one-year period) differed from the names on the MVA file for the same Comptroller letter control number. Specifically, 222 individuals had obtained a DL or ID card using a Comptroller letter control number in which the individual's first and/or last name did not match the name of the individual who was assigned the related number. This

included 104 individuals who were not previously identified in our first analysis of 225 individuals. The potential exists for a greater number of such occurrences since data received daily from the Comptroller is only for a one-year period and MVA does not retain older versions of the data.

We judgmentally selected 15 of the 329 unique DL or ID cards identified by these analyses and reviewed the individual files, including all documentation provided to MVA to obtain the products. Our test disclosed that 14 of the 15 DL or ID cards appeared to have been issued based on fraudulent documentation. The remaining instance appeared to be the result of a clerical error in recording the applicant's name.

We also used MVA's official DL and ID records for all active products and identified at least 499 non-compliant DL or ID cards where the same primary residence address was used by multiple individuals. Specifically, we identified 21 residential addresses that were used as the primary address for 11 to 40 individuals each. Of these 499 products, 497 were not identified by our aforementioned analyses. Although there may be legitimate reasons for multiple applicants to list the same address, the frequency with which certain addresses were used appeared questionable.

We judgmentally selected 10 of these 497 DL or ID cards and reviewed the individual files, including all documentation provided to MVA to obtain the products. Our test disclosed that 5 appeared to have been issued based on fraudulent documentation, such as counterfeit bank statements used as proof of Maryland residency. Accordingly, this may be another useful review for MVA to perform to identify improperly issued DL or ID cards.

While MVA did periodically perform reviews to identify addresses that were listed as the primary residence for multiple DL or ID cards, these reviews were not sufficient. Investigators performed site visits to these addresses and interviewed certain individuals, such as the homeowner or property manager, to determine whether to cancel DL or ID cards for certain individuals who improperly listed the address as their primary residence. The investigators did not routinely review the documentation on file at MVA, which may provide additional information to help their investigative efforts.

A summary of our analyses is included in the table below. We provided MVA with the detailed results of our analyses and testing.

**Table 1: Schedule of OLA Analyses, Testing, and Results
For Non-compliant Products as of August 25, 2016**

	Analysis Performed			Totals
	Same Comptroller Letter Used Multiple Times	Names Did Not Match	Same Address Used Multiple Times	
Total Number of Unique Products Potentially Issued Based on Fraudulent Documentation	225	104	497	826
Number Selected for Testing	10	5	10	25
Number Tested That Appeared to Be Fraudulent	10	4	5	19

Efforts to Recover Fraudulently Obtained DL and ID Cards Were Limited

According to MVA management, its investigators typically attempt to retrieve fraudulently obtained products. However, because fraudulent residency documentation (in addition to fraudulent Comptroller letters) was often provided during the application process, MVA's recovery efforts were limited. Many individuals may still have these products in their possession, allowing them to, for example, drive and establish bank accounts if the products are not otherwise validated.

Recommendation 1

We recommend that MVA

- a. develop procedures, such as an automated verification process for all federally non-compliant applicants, to ensure the same Comptroller letter control number cannot be used by more than one applicant to obtain a**

- DL or ID card and to ensure that the control number was issued to the applicant;
- b. develop procedures to periodically identify instances in which a Comptroller letter control number was improperly used to obtain a Maryland DL or ID card, perform documented investigations, including a review of applicable supporting documentation, and take appropriate action;
 - c. expand its review of addresses used by multiple applicants to include a review of applicable supporting documentation, take appropriate follow-up action, and document work performed;
 - d. investigate the results of our analyses and cancel any cards which were improperly issued, including the 19 products identified in our tests, and refer the applicants to the appropriate authorities; and
 - e. identify the circumstances involved in issuing the potentially fraudulent non-compliant products identified in our analyses and, in consultation with the Office of the Attorney General – Criminal Division, take appropriate action.

Finding 2

Adequate controls were not established over MVA's inventory stock of blank driver's license and identification cards.

Analysis

Adequate controls were not established over MVA's inventory stock of blank driver's license and identification cards maintained at its headquarters location, as one employee had unilateral control over these cards. Specifically, this employee ordered new cards from the vendor, received the cards, and recorded the receipt of the cards and their unique inventory numbers in MVA's inventory tracking system without independent review. This employee also participated in periodic physical inventories of the card stock. Consequently, there was a lack of assurance that all cards received were properly recorded and accounted for. Since the cards exhibit certain graphics referring to their purpose and identifying the State of Maryland, there is a potential for these cards to be used for fraudulent purposes. Consequently, it is incumbent upon MVA to ensure that adequate controls are established to properly record and account for all cards received.

Our review of one purchase of 328,200 cards made in June 2016 disclosed that only 320,700 cards were recorded in the inventory tracking system, a difference of 7,500 cards. We were informed by the aforementioned employee that the 7,500 cards were received, but were not recorded because they were to be used for

testing purposes. This was confirmed by MVA management; however, there was no documentation of the disposition of these cards.

The Department of General Services' *Inventory Control Manual* requires that the employee who receives inventory items be separate from the employee who records the inventory items in the agency's records, and that the employee responsible for ordering items be separate from the employee who receives them.

Recommendation 2

We recommend that MVA

- a. adequately separate employee duties relating to the procurement, receipt, and recording of its driver's license and identification card inventory stock;**
- b. develop a procedure, such as a documented independent supervisory review, to ensure that all cards received are properly recorded in the inventory tracking system; and**
- c. determine and document the disposition of the aforementioned 7,500 cards.**

We advised MVA on accomplishing the necessary separation of duties using existing personnel.

Licensing – Suspension and Revocation

Background

MVA is responsible for processing certain administrative actions relating to driver's licenses, such as license suspensions and revocations. MVA receives information daily that impacts drivers' licenses, consisting primarily of traffic citations and case convictions from the State's district and circuit courts and from other State and local entities. MVA personnel review this information and determine any appropriate administrative action. For example, as specified in State law, a license suspension or revocation generally occurs when a driver accumulates a specified number of points on his or her driving record (8 and 12 points, respectively) based on traffic citations received. License suspensions may 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 driving record with the manual determination is scanned into MVA's Document Imaging and Workflow System (DIWS) and the decision code is entered, which automatically generates a letter of notification to the licensee advising him or her

of the determination. According to its records, MVA processed 279,533 suspension and revocation actions during calendar year 2015.

Finding 3

MVA did not ensure that all driving records were being reviewed, as required, for possible administrative action, and our tests disclosed several records for which required administrative action was not taken.

Analysis

Although MVA had established procedures to identify driving records to be reviewed for potential administrative action resulting from traffic offenses incurred, certain records were erroneously excluded from these procedures. After our inquiries during the audit, MVA determined that certain cases in which the driver had already accumulated 8 or 12 points on his or her driving record were being incorrectly excluded from these review procedures. Our test of 31 excluded records disclosed that required administrative action, such as license suspension, was not taken against 8 of the drivers.

MVA converted traffic-related conviction information it received from the courts on a daily basis to the required number of points as specified in State law, and automatically posted the points to each individual's driving record. An automated report was generated of driving records to be reviewed by MVA personnel based on the accumulated points on each record to determine what, if any, administrative action should be taken.

In response to our audit inquiries, MVA determined that cases in which the driver's license had already been suspended or revoked were being erroneously excluded from the report and, therefore, were not subject to its review. For example, the report would exclude the driving record of a driver with a currently revoked license (that is, had already accumulated 12 points) even if the driver was later convicted of an offense requiring additional points. Such records should be reviewed for a possible extension of the initial revocation.

We obtained an automated file of traffic offense convictions resulting in an accumulated assessment of 8 or more points for 10 days during calendar year 2015 and compared the file with the count of driving records printed and reviewed by MVA for these days. This comparison disclosed 5 days in which the total count of driving records printed (393) was 34 records less than the number of licenses identified by the automated file of traffic offense convictions (427). Consequently, these 34 driving records were not subject to the review process and any administrative actions required were not imposed.

With the assistance of MVA personnel, we reviewed 31 of the 34 records identified on 2 of these days. Our review disclosed that 8 of the 31 drivers should have had administrative action taken against them, such as license suspension, revocation, or an extension of an existing suspension or revocation. For example, 2 drivers who were serving a 30-day suspension subsequently accumulated more points which should have resulted in a 90-day suspension. The remaining 23 did not require any additional administrative action primarily because of the timing of the violations and the court convictions.

Recommendation 3

We recommend that MVA

- a. ensure that all driving records with 8 and 12 accumulated points are reflected on reports for subsequent review to determine if administrative action is required;**
- b. investigate the aforementioned 8 driving records noted in our review and take appropriate action; and**
- c. identify and investigate other driving records which have not been reviewed, and take appropriate action in consultation with legal counsel.**

Finding 4

MVA did not ensure that required supervisory reviews of critical transactions recorded on driving records, including license suspensions and revocations, were adequately performed and documented.

Analysis

MVA did not ensure that required supervisory reviews of critical transactions recorded on driving records were adequately performed and documented. These reviews are meant to ensure the propriety of these transactions, such as the addition or removal of a license suspension or revocation, and accordingly, the accuracy of the related driving record. MVA's policy requires the supervisory review of five percent of critical transactions processed.

- Supervisory reviews were not always performed as required. Our test of 1,044 critical transactions processed by 10 employees over five days disclosed that, although 46 (4.4 percent) of the critical transactions tested had been reviewed, none of the 176 transactions processed by 2 employees were reviewed. Additionally, the number of transactions reviewed for 2 other employees fell short of the five percent requirement. For example, only 1 of 95 critical transactions performed by one of these employees on the date tested was subject to supervisory review.

- Our review of the 31 records referred to in Finding 3 (that is, records with an accumulated assessment of 8 or more points that were excluded from the administrative action review procedures) disclosed 5 instances in which a supervisor indicated that the transaction had been subject to supervisory review. Specifically, the supervisor noted that his or her review was performed by examining the transaction and related notes recorded on the applicable driving record in DIWS. However, as previously noted, these driving records had not been scanned into DIWS and, accordingly, no administrative action (critical transaction) was taken. Consequently, supervisory review would have been an impossibility. Each supervisory review conducted should be accurately documented.

Recommendation 4

We recommend that MVA

- a. conduct supervisory reviews of critical transactions recorded on driving records in accordance with its policy, and**
- b. ensure that all such reviews are adequately and accurately documented.**

Contract Procurement and Monitoring

Finding 5

MVA did not ensure that labor rates included in a \$21.4 million information technology (IT) contract were the most favorable available, and MVA's procedures for monitoring IT contracts and reviewing the related billings did not ensure hours billed were reasonable, receipt of all deliverables, and compliance with all contract terms.

Analysis

MVA did not ensure that a \$21.4 million IT services contract was procured at the most favorable labor rates available. In addition, MVA's procedures for monitoring this and other IT contracts and for reviewing the related billings were not effective in ensuring hours billed and paid for were reasonable, the receipt of all deliverables, and compliance with all contract terms. We examined four IT contracts that were in effect during our audit period that had a collective value of \$57.2 million with related payments totaling \$40.2 million as of May 11, 2017. The contracts covered a full range of IT services to modernize and standardize driver's licensing and other business systems.

Most Favorable Rates for Certain Labor Categories Were Not Obtained From One Vendor

MVA procured the \$21.4 million contract, effective June 2013, using a competitive sealed proposal process when lower rates for certain required labor categories could have been obtained through a Consulting and Technology Services (CATS) master contract maintained by the State's Department of Information Technology.

While the use of CATS to procure IT services is not required, the CATS master contract may offer a financial advantage to an agency by providing preapproved vendors with established not-to-exceed billing rates for each vendor and labor category. In this instance, the vendor selected by MVA was also an approved vendor under CATS; consequently, MVA could have either used CATS or required the vendor to match the lower rates it offered under CATS. Although the labor rates for certain labor categories included in the contract procured by MVA were lower than the CATS contract, the labor rates for other categories were higher. Over the course of the contract term, which continues through June 2023, the higher contract rates could potentially cost MVA an additional \$272,000. Based on our review of three invoices, we noted that MVA paid at least \$7,609 more than if MVA had obtained the rates available under the CATS master contract.

Effective Contract Monitoring Was Not Established

For two contracts valued at \$17.8 million, MVA did not establish comprehensive task orders to direct the work and to allow MVA to effectively monitor the contractor and related billings. For one of these two contracts, the deliverables stated in the contract were not specific to help ensure that expected outcomes were achieved. Furthermore, MVA did not issue task orders with specific deliverables, estimated hours, and related costs that would help ensure that work on individual tasks did not continue for inordinate periods resulting in excessive costs. We noted that the work relating to one requirement (system migration), had an initial completion date of February 15, 2016, according to the contractor's status report, but this date changed to January 16, 2017 on a subsequent status report.

For the other contract, MVA did not review the task order proposals submitted by the vendor to ensure the work was appropriate and the proposed costs were reasonable. Our review disclosed two proposals for tasks that were specifically excluded from the scope of work or were included in an earlier price proposal, resulting in an overpayment of \$97,279. Furthermore, the task order proposals did not include completion dates as required. For example, one task, valued at \$58,394, remained unfinished and was subsequently included in the next task

order, increasing the cost to \$63,915. Only a portion of the work was completed and the task was again included in the subsequent contract with the same contractor. MVA advised that the task was ultimately completed, but could not provide documentation of the final cost for this work.

For three contracts totaling \$46.6 million, MVA lacked sufficient evidence, such as required delivery acceptance forms, that deliverables were properly completed. For two of the contracts, MVA lacked evidence that required status reports, daily training records, and project transition plans were received, reviewed, and accepted as satisfactory. For one of these two contracts and for the third contract, either MVA could not provide meeting minutes to evidence that required periodic progress meetings were held or meeting minutes showed numerous occasions where there were no MVA employees in attendance. The weekly meetings were meant to provide an opportunity to review completed work, deliverables in progress, and planned upcoming work. Under these circumstances, there is a lack of assurance that MVA received all the services it paid for.

For two contracts totaling \$28.6 million, MVA did not review the qualifications of new contractor employees, and did not approve the employees, as called for in the contracts. Between the two contracts, MVA paid for work performed by eight individuals who were not approved in the original contracts, and who were not subsequently approved by MVA. In addition, MVA did not prepare required periodic evaluations for any of the contractor employees providing services under these two contracts.

Insufficient Review of Invoices

For two contracts valued at \$17.8 million, MVA did not adequately review the related invoices to ensure compliance with contract terms and rates. For one contract, the task order proposals and related invoices totaling \$1.1 million for two software modifications we reviewed were based on a flat fee; however, the contract generally required such tasks to be performed on a time and materials basis for established labor categories and to be supported by timesheets.

Under the terms of the other contract, monthly payments were to be based on the number of hours worked by each contract employee. However, our review of three invoices and the related timesheets submitted by the contractor disclosed that the contractor adopted a billing practice, without formal approval from MVA, in which time worked by a contractor employee in excess of 8 hours per day was not immediately billed, but was instead accrued by the contractor to be billed at a later date when the employee did not work. As of September 2016, the contractor's records indicated that there were 321 accrued hours, valued at \$27,992, owed to the contractor by MVA, and there was no indication that MVA

monitored the accrued time for propriety. In addition, on the three invoices tested, the hourly rate charged for one employee (\$85) was higher than the approved contract rate (\$76), resulting in overpayments totaling \$6,552.

Recommendation 5

We recommend that MVA

- a. take all appropriate steps, including consideration of CATS contracts, to obtain the lowest labor rates available for IT services required;**
- b. establish task orders to direct contractor work including estimated hours, not-to-exceed costs, milestones, and completion dates;**
- c. review task order proposals to ensure the work is appropriate and the proposed costs are reasonable;**
- d. adequately monitor contracts to ensure that all contract requirements are met and deliverables are completed to MVA's satisfaction, including completion of signed delivery acceptance forms as required;**
- e. ensure that all contractor employees are reviewed for qualifications, properly approved, and that a periodic evaluation is performed for each resource as required;**
- f. ensure that all billings are in accordance with the time and materials provisions of the contracts and established task orders and reflect approved contract rates paid; and**
- g. perform a documented review of all invoices submitted for the contracts tested to identify any overpayments made and take appropriate action to recover any overpayments made, including those we identified.**

Finding 6

MVA did not adequately control electronically submitted vendor bids.

Analysis

MVA had not established adequate controls over electronically submitted vendor bids. For computer hardware and software procurements, MVA routinely instructed vendors to submit their competitive sealed bids directly to the email account of its procurement officer. However, the bid submissions were not required to be password protected. Additionally, MVA did not maintain documentation to indicate when the electronic bids were opened, nor were the bids opened publicly. Our review of five procurements totaling \$3.8 million with bids that were electronically submitted disclosed that MVA did not properly secure the electronic bids, document the bid openings, and hold the bid openings in public for any of the electronic submissions.

Recommendation 6

We recommend that MVA

- a. establish procedures, such as requiring password protection, to properly secure competitively sealed bids received electronically;**
- b. ensure that all competitively sealed bids are opened publicly; and**
- c. maintain documentation of bid openings.**

Cash Receipts

Background

MVA collects fees and penalties for a variety of activities related to the ownership and operation of motor vehicles, including the registration and titling of vehicles, licensing passenger and commercial drivers, and enforcing insurance compliance. Collections are received at the headquarters location in Anne Arundel County and at 24 branch offices that individually may offer a full range of services or limited, express services. MVA also operates its *eStore*, which provides online services to its customers with connectivity via the Internet, and kiosks located at certain shopping centers and branch offices. Furthermore, several county government offices are authorized to process certain MVA transactions and collect and submit the related fees to MVA.

According to its records, MVA's fiscal year 2016 collections totaled \$1.7 billion. Of this amount, \$376.2 million was received as walk-in collections at branch offices. During our audit, we reviewed cash receipts procedures and controls at three branch offices that had fiscal year 2016 receipts totaling \$184.4 million.

Finding 7

MVA did not have adequate procedures to ensure that differences between recorded collections and amounts deposited by branch offices were adequately investigated and resolved.

Analysis

Procedures performed at MVA headquarters to account for all fees collected and recorded in MVA's Titling and Registration Information System (TARIS) by branch office employees were not adequate. Differences between recorded fee collections, bank deposits, and cash receipts recorded in the State's records were not always adequately resolved, and investigations were not properly documented and subject to supervisory review.

- During daily TARIS reconciliations, discrepancies between recorded fee collections and the corresponding bank deposits were not always adequately

investigated. For example, the employee performing the reconciliations often accepted notifications of deposit corrections received from the bank as full resolution of a discrepancy without conducting an investigation. Our test of 13 branch deposits totaling \$184,000, with discrepancies totaling \$94,900, disclosed that 6 discrepancies totaling \$18,300 were considered resolved in this manner. However, in one instance, we determined that the bank erroneously credited MVA's account for \$5,000 to resolve a deposit difference that was actually caused by an MVA recording error, not an actual difference in the deposit amount. According to MVA records, there were 5,728 discrepancies identified during the period from July 1, 2014 through March 7, 2016 totaling \$23.6 million.

In addition, if the employee could not resolve a deposit discrepancy, the discrepancy was referred to the employee responsible for investigating chargeback transactions and was listed on the TARIS reconciliation as resolved. However, no follow-up was performed to ensure that the difference was subsequently resolved. Of the 13 deposits tested, 3 discrepancies totaling \$24,500 were referred to this employee to be reviewed in conjunction with the investigation of chargebacks, and were documented as reconciled without adequate follow-up to ensure that the items were actually resolved.

- Similarly, investigations of chargeback transactions, which were differences between cash receipts recorded on the State's records and those recorded by the bank as deposited, were also insufficient. The employee who investigated chargebacks did not always examine adequate documentation, such as source documents prepared by the applicable branch office, to resolve differences between the State's records and the bank's records. The employee often relied solely on deposit data already recorded in MVA's records. However, relying only on such data may not provide a complete and accurate explanation as to why the chargeback occurred. Chargeback transactions were reported to MVA by the Office of the State Treasurer. Adjusting entries to clear the chargeback clearing account totaled \$14 million for our audit period.
- The aforementioned investigations of reconciling items and chargeback transactions were not adequately documented. For example, the employee who investigated deposit discrepancies did not maintain documentation of the review performed and how items were resolved. For all 13 deposit discrepancies we tested, MVA reprinted all the supporting documentation (TARIS deposit information, banking online documentation) at our request. Finally, these investigations and adjustments were not subject to independent supervisory review and approval.

Recommendation 7

We recommend that MVA

- a. ensure that differences identified by the daily reconciliations and chargeback transactions are adequately investigated, including an examination of all relevant supporting documentation;**
- b. maintain adequate documentation of the investigations performed; and**
- c. provide for supervisory review and approval of the investigations and any resulting adjustments.**

Finding 8

Collections received at MVA headquarters for vehicle registration renewals processed at county offices were not adequately controlled.

Analysis

Collections received at MVA headquarters from 12 counties for vehicle registration renewals processed on behalf of MVA were not adequately controlled. Certain counties, including those that do not have MVA branch offices, have authority under State law to process registration renewals at their county offices and collect the related fees. These counties periodically forwarded the related fees to MVA by check. These transactions were recorded in TARIS when processed by the counties, but the transactions were not released to update MVA's detail records until the related checks were received and processed for deposit by MVA. Amounts remitted to MVA by these 12 counties during fiscal year 2015 totaled \$3.7 million.

- Checks received from county offices were not always recorded and restrictively endorsed immediately upon receipt. Specifically, checks received in the afternoon were not recorded and restrictively endorsed until the following day. Although these checks were maintained overnight in a locked cabinet within a secured room, numerous employees had access to the room as well as the cabinet key which was maintained in an unlocked drawer.
- Duties were not adequately segregated since the same employee who received the county checks and the related supporting documentation was also responsible for performing the daily reconciliation designed to ensure that all collections received were deposited and properly recorded in MVA's records.
- MVA did not ensure that the funds and supporting documentation due from the county offices were received in a timely manner and that the documentation supported the transactions processed by the county offices. Our test of 10 checks totaling \$99,700 disclosed that 3 checks totaling

\$45,600 were dated from 10 to 29 business days after the date of the last registration renewal to which the checks applied. In addition, all required supporting documentation was not submitted relating to 4 checks totaling \$37,300. State law requires county offices to submit all fees collected, and the related record of registration renewals for each day at the end of each week.

Under these conditions, errors or other discrepancies could occur without timely detection. Similar conditions were commented upon in our preceding audit report.

Recommendation 8

We recommend that MVA

- a. secure checks prior to deposit and ensure they are recorded and restrictively endorsed immediately upon receipt (repeat);**
- b. segregate the cash collection, account monitoring, and deposit verification functions (repeat); and**
- c. monitor county transactions to ensure that all related collections and supporting documentation are received at least weekly by MVA in accordance with State law (repeat).**

We advised MVA on accomplishing the necessary separation of duties using existing personnel.

Information Systems and Controls

Background

MVA's Office of Information Resources (OIR) provides information technology services to MVA. OIR 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 Maryland Department of Transportation – Office of Transportation Technology Services operates a mainframe computer for certain MVA applications, such as the Driver Licensing system.

Finding 9

Controls over the MVA virtual server environment did not properly protect critical virtual servers.

Analysis

Controls over the MVA virtual server environment did not properly protect critical virtual servers. Specialized software 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 October 2016, MVA was using 27 physical host servers to host 190 virtual servers that primarily supported the critical eStore system which provides online services to MVA customers with connectivity via the Internet and kiosks located at MVA branch offices. These host and virtual servers are managed via a central management console. We determined that 24 user accounts (assigned to 16 unique individuals) were improperly granted the administrator role over the aforementioned central management console that allowed these individuals to make unauthorized changes to MVA's virtual server environment including the servers supporting the critical eStore system.

The State of Maryland *Information Security Policy*, states that agencies must ensure that only authorized individuals (employees or agency contractors) have access to confidential information and that such access is strictly controlled, audited, and that it supports the concepts of "least possible privilege" and "need to know."

Recommendation 9

We recommend that MVA restrict administrative access to its virtual server environment to individuals whose job duties require such access.

Finding 10

Procedures for securing MVA's numerous computers were not sufficient.

Analysis

Procedures for securing MVA's numerous computers were not sufficient.

- MVA operated approximately 3,900 workstations and servers to support its operations. Our testing determined that 607 of these computers did not have any malware protection (either host or network based malware protection).
- MVA personnel advised that they periodically verified that host based malware protection software was installed and operational on its computers by

comparing computer counts from its malware protection consoles to computer counts of its directory services. However, there was no documentation that substantiated these comparisons were performed.

The State of Maryland *Information Security Policy* states that agencies, at a minimum, must protect against malicious code (viruses, worms, Trojan horses) by implementing (anti-virus, anti-malware) solutions that, to the extent possible, include a capability for automatic updates.

Recommendation 10

We recommend that MVA

- a. ensure that all managed computers are running current, operational versions of its host based malware protection software by performing periodic comparisons of computer counts from its malware protection consoles to computer counts from its directory services; and**
- b. document these comparisons and retain the documentation for future reference.**

Ignition Interlock Program

Finding 11

Employees responsible for reviewing and approving changes to critical data relating to the Ignition Interlock Program (IIP) also had access capability allowing them to change these data, compromising effective internal control over the Program.

Analysis

Certain employees responsible for reviewing and approving changes to critical data relating to the IIP also had access capability allowing them to change these data, compromising effective internal control over the Program. Specifically, seven employees who were responsible for reviewing and approving such adjustments, either in a primary or back-up capacity, also had access granting them the capability to adjust critical IIP data, such as the driver violation and the period a driver was required to be in the Program. Furthermore, these employees could process an unauthorized adjustment transaction and then delete the record of the transaction after the change was made, thereby ensuring the adjustment would not appear on the output reports for review purposes. As a result, improper IIP transactions could be recorded without detection. The aforementioned *Information Security Policy* requires that agencies maintain appropriate audit trails of significant security events related to critical applications.

The IIP was established to formalize the monitoring process of the ignition interlock device which helps prevent individuals convicted of alcohol-related driving violations from driving while intoxicated. Drivers are enrolled in the program for a certain 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. According to MVA records, as of February 16, 2016 there were 10,584 drivers actively enrolled in the IIP.

Recommendation 11

We recommend that MVA

- a. take appropriate action to ensure that all changes to critical IIP information are subject to independent supervisory review and approval, and**
- b. remove the IIP transaction deletion capability from all users.**

Corporate Purchasing Cards

Finding 12

MVA did not adequately monitor corporate purchasing card (CPC) purchases and did not always comply with related State policies and procedures.

Analysis

MVA did not adequately monitor CPC purchases and comply with the requirements of the Comptroller of Maryland's *Corporate Purchasing Card Policy and Procedures Manual*. According to the bank's records, as of June 30, 2016 MVA had 87 active cards, and the related expenditures totaled approximately \$1.9 million during fiscal year 2016.

- Our test of 25 purchasing card transactions totaling approximately \$53,000 disclosed purchases totaling \$35,640 that appeared to have been split into smaller transactions to circumvent competitive procurement requirements of the State procurement regulations or the cardholder's single transaction spending limit. For example, one cardholder made three purchases on the same day, in amounts ranging from \$1,959 to \$2,029, for the same product from the same vendor. Two days later, this cardholder and a second cardholder made three additional purchases, each under \$2,300, for the same product from the same vendor. Both cardholders had single transaction limits of \$2,500. State procurement regulations generally require the use of statewide commodity contracts when available and provide that procurements

may not be divided to avoid the use of the competitive procurement process. Furthermore, the *Manual* prohibits artificially splitting purchases to circumvent CPC spending limits.

- Supervisory personnel did not perform a documented review of available Level-3 purchasing card data to help determine the propriety of the CPC transaction, as required by the *Manual*. Level-3 data, which are provided by certain merchants, provide detailed descriptions of items purchased and provide supervisory personnel with additional information to help detect questionable purchases.
- MVA did not maintain a list of disputed transactions, as required by the *Manual*, nor did it adequately follow up with the bank to ensure that appropriate credit was received when the bank was advised of fraudulent transactions. During our testing of CPC transactions, we noted that one cardholder identified and reported six fraudulent transactions totaling \$1,071 to the bank; however, credit had not been received and no follow-up action had been taken until we brought this to MVA's attention in July 2016, 20 months after the fraudulent charges were first reported.

Recommendation 12

We recommend that MVA ensure compliance with the *Corporate Purchasing Card Policy and Procedures Manual*. Specifically, we recommend that MVA

- a. ensure that CPC transactions are not split to circumvent established controls and in violation of *Manual* requirements;**
- b. incorporate and document the use of Level-3 purchasing card data in supervisory reviews of the activity logs to help ensure the propriety of CPC activity; and**
- c. establish procedures to follow-up, in a timely manner, on potentially fraudulent transactions referred to the bank.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Transportation – Motor Vehicle Administration (MVA) for the period beginning July 25, 2012 and ending December 14, 2015. 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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included the titling and registration, licensing, license suspension and revocation, and insurance compliance processes, as well as procurements and disbursements for MVA's operating expenses, cash receipts, payroll, and information systems security. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain payroll support services (such as, processing of personnel transactions and maintenance of employee leave records) provided to MVA by the State Highway Administration. These support services are included within the scope of our audit of the State Highway Administration.

Our audit also did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of MVA's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MVA.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MVA's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the

tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System and the Maryland Department of Transportation's Financial Management Information System (such as revenue and expenditure data) and from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from MVA's automated systems for the purpose of testing the propriety of licenses issued and motor vehicle registration and titling, as well as certain administrative actions such as license suspensions and revocations. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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.

The response from the Maryland Department of Transportation, 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



Larry Hogan
Governor
Boyd K. Rutherford
Lt. Governor
Pete K. Rahn
Secretary

Office of the Secretary

November 17, 2017

Thomas J. Barnickel III, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street
Room 1202
Baltimore MD 21201

Dear Mr. Barnickel:

Enclosed please find the Maryland Department of Transportation (MDOT) response to the draft Legislative Auditor's Report dated November 2017, for the MDOT Motor Vehicle Administration, for the period July 25, 2012 to December 14, 2015. Additionally, an electronic version of this document has been sent to your office via email (file name: Draft Audit Report) to response@ola.state.md.us.

If you or your staff have any Additional questions or concerns, please do not hesitate to contact Mr. David L. Fleming, Chief Financial Officer, Office of Finance, 410-865-1035, and dfleming@mdot.state.md.us. Mr. Fleming will be happy to assist you. Of course, you may always contact me directly.

Sincerely,

A handwritten signature in black ink, appearing to read "Pete K. Rahn", with a stylized flourish at the end.

Pete K. Rahn
Secretary

Enclosures

cc: Mr. Rick A. Bilenky, Chief Internal Auditor, MDOT MVA
Ms. Brenda Cachuela, Director, Office of Audits, MDOT TSO
Mr. Phil Dacey, Deputy Administrator, COSP, MDOT MVA
Ms. Leslie Dews, Chief Deputy Administrator, MDOT MVA
Mr. David L. Fleming, Chief Financial Officer, Office of Finance,
MDOT TSO
Mr. Pretam Harry, Financial Services Director, MDOT MVA

Mr. Thomas J. Barnickel

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cc: Ms. Julia King, Senior Auditor, Office of Legislative Audits
Ms. Elizabeth Kreider, Deputy Administrator, Support Services, MDOT MVA
Ms. Christine Nizer, Administrator, MDOT MVA
Mr. Jim Ports, Deputy Secretary, Administration & Operations, MDOT TSO
Mr. William Smith, Audit Manager, Office of Legislative Audits
Ms. Patricia Velez, Chief Information Officer, MDOT MVA
Mr. Steven P. Watson, Deputy Chief Financial Officer, MDOT TSO

**Maryland Department of Transportation
Motor Vehicle Administration
Draft Audit Responses
Period July 25, 2012 to December 14, 2015**

Licensing - Controls over Issuance and Inventory

Finding 1

Although an internal investigation revealed that MVA issued 270 fraudulent federally non-compliant driver's license (DL) and identification (ID) cards, the scope of the investigation was limited and we found many additional products that may have been issued improperly. MVA also did not alter its procedures to correct the related control deficiencies.

Recommendation 1

We recommend that MVA

- a. develop procedures, such as an automated verification process for all federally non-compliant applicants, to ensure the same Comptroller letter control number cannot be used by more than one applicant to obtain a DL or ID card and to ensure that the control number was issued to the applicant;
- b. develop procedures to periodically identify instances in which a Comptroller letter control number was improperly used to obtain a Maryland DL or ID card, perform documented investigations, including a review of applicable supporting documentation, and take appropriate action;
- c. expand its review of addresses used by multiple applicants to include a review of applicable supporting documentation, take appropriate follow-up action, and document work performed;
- d. investigate the results of our analyses and cancel any cards which were improperly issued, including the 19 products identified in our tests, and refer the applicants to the appropriate authorities; and
- e. identify the circumstances involved in issuing the potentially fraudulent non-compliant products identified in our analyses and, in consultation with the Office of the Attorney General – Criminal Division, take appropriate action.

Response:

- a. The Administration concurs with this recommendation. The MDOT MVA takes the issue of fraud very seriously. In 2013, Maryland passed a law authorizing the issuance of driver's licenses and identification cards to individuals who cannot demonstrate lawful status. The MDOT MVA already identified and immediately took administrative action against the employees who did not follow the required procedures of ensuring the customer had an appointment, which enforces a unique Comptroller Number. In addition, prior to the legislative audit, the MDOT MVA initiated programming modifications in the Driver Licensing System (DLS) to ensure that if a Comptroller Number has already been used, the system will not allow the transaction to be completed. This change was completed in April 2017.

- b. The Administration concurs with this recommendation. With the implementation of the new programming in the DLS system, if there is an attempt to utilize a Comptroller Number that has already been used, the system will stop the transaction and it will be reviewed by MDOT MVA Investigations.
- c. The Administration concurs with the recommendation. For the past two years, MDOT MVA Investigations Division has been using an application that identifies if there are multiple products issued in different names (i.e. no family relation) at a particular address. The investigator will review the documents and personally visit the location, if necessary, to verify whether the individuals reside at that address. If fraud is detected, then the products are cancelled. During Calendar Year 2016, there were 360 license cancellations due to this process. In addition, in March 2017, the MDOT MVA implemented a program in which if a specific address is utilized a particular number of times, it will stop the transaction and refer the individual to MDOT MVA Investigations for address verification. During Calendar Year 2017 through September, the MDOT MVA has canceled 1,204 licenses for residency fraud. All reviews are being documented by MDOT MVA Investigations Division.
- d. The Administration concurs with the recommendation and in December 2016 initiated the process of canceling 18 of the 19 cards. One card was determined not to be fraudulent. As of November 3, 2017, all 18 remaining cards have been cancelled. When a driver's license is canceled because of residency fraud, that individual is required to meet with an investigator. If the MDOT MVA investigator concludes that there is sufficient probable cause to believe that the customer committed fraud in their application, the MDOT MVA investigator will issue a written citation charging the individual with violating Transportation Article § 16-301 (a), knowingly and fraudulently obtaining a driver's license by misrepresentation. During Calendar Year 2016, 146 citations were issued. A citation requires the customer to appear in court and they face a maximum penalty of 2 months imprisonment, a \$500 fine, or both.
- e. The Administration concurs with this recommendation. The MDOT MVA has taken swift action to address fraud in the Comptroller Number and in residency as identified above. For any individual or employee engaging in criminal conduct, MDOT MVA Investigations Division contacts appropriate local, state, or federal law enforcement for possible prosecution.

Finding 2

Adequate controls were not established over MVA's inventory stock of blank driver's license and identification cards.

Recommendation 2

We recommend that MVA

- a. adequately separate employee duties relating to the procurement, receipt, and recording of its driver's license and identification card inventory stock;
- b. develop a procedure, such as a documented independent supervisory review, to ensure that all cards received are properly recorded in the inventory tracking system; and
- c. determine and document the disposition of the aforementioned 7,500 cards.

We advised MVA on accomplishing the necessary separation of duties using existing personnel.

Response:

- a. The Administration concurs with this recommendation. As of December 30, 2016, we implemented the steps to segregate the duties related to the procurement, receipt, and recording, of driver's license and identification card inventory.
- b. The Administration concurs with this recommendation. In January 2016, a procedure was implemented that requires independent documented supervisory review of all cards within the inventory system.
- c. The Administration concurs with this recommendation. We investigated all of the 7,500 cards in question, of which 6,465 cards were verified through collection of data from parallel testing and user acceptance testing programs. The balance of 1,035 cards were used for Disaster Recovery Site and Maintenance Testing prior to establishing a perpetual record. All 1,035 cards were destroyed after testing was completed.

Licensing – Suspension and Revocation**Finding 3**

MVA did not ensure that all driving records were being reviewed, as required, for possible administrative action, and our tests disclosed several records for which required administrative action was not taken.

Recommendation 3

We recommend that MVA

- a. ensure that all driving records with 8 and 12 accumulated points are reflected on reports for subsequent review to determine if administrative action is required;
- b. investigate the aforementioned 8 driving records noted in our review and take appropriate action; and
- c. identify and investigate other driving records which have not been reviewed, and take appropriate action in consultation with legal counsel.

Response:

- a. The Administration concurs with this recommendation. The MDOT MVA implemented procedures in January 2017 to ensure that all records with 8 and 12 point accumulations are reviewed for administrative actions.
- b. The Administration concurs with this recommendation. The MDOT MVA completed a review of the 8 identified cases and determined 2 of the 8 cases required additional administrative action. As of November 2017, the appropriate administrative actions on these 2 license holders have been instituted.
- c. The Administration concurs with this recommendation. The MDOT MVA is reviewing reports from January 1, 2016 forward to identify if there are additional cases that warrant further administrative action. We anticipate completing the manual review by the end of January 2018.

Finding 4

MVA did not ensure that required supervisory reviews of critical transactions recorded on driving records, including license suspensions and revocations, were adequately performed and documented.

Recommendation 4

We recommend that MVA

- a. conduct supervisory reviews of critical transactions recorded on driving records in accordance with its policy, and
- b. ensure that all such reviews are adequately and accurately documented.

Response:

- a. The Administration concurs with this recommendation. On October 20, 2016, the MDOT MVA policy on auditing critical transactions was redistributed to management and supervisors to ensure audits are conducted per that policy.
- b. The Administration concurs with this recommendation. Management has met with the appropriate personnel to remind staff of the appropriate policies and will conduct periodic reviews of audit documentation to ensure that requirements are met.

Contract Procurement and Monitoring**Finding 5**

MVA did not ensure that labor rates included in a \$21.4 million information technology (IT) contract were the most favorable available, and MVA's procedures for monitoring IT contracts and reviewing the related billings did not ensure hours billed were reasonable, receipt of all deliverables, and compliance with all contract terms.

Recommendation 5

We recommend that MVA

- a. take all appropriate steps, including consideration of CATS contracts, to obtain the lowest labor rates available for IT services required;
- b. establish task orders to direct contractor work including estimated hours, not-to-exceed costs, milestones, and completion dates;
- c. review task order proposals to ensure the work is appropriate and the proposed costs are reasonable;
- d. adequately monitor contracts to ensure that all contract requirements are met and deliverables are completed to MVA's satisfaction, including completion of signed delivery acceptance forms as required;
- e. ensure that all contractor employees are reviewed for qualifications, properly approved, and that a periodic evaluation is performed for each resource as required;
- f. ensure that all billings are in accordance with the time and materials provisions of the contracts and established task orders and reflect approved contract rates paid; and
- g. perform a documented review of all invoices submitted for the contracts tested to identify any overpayments made and take appropriate action to recover any overpayments made, including those we identified.

Response:

- a. The Administration partially concurs and does use the CATS contract when deemed appropriate. However, there will be times when a stand-alone RFP is a better procurement method. Additionally, the CATS contract does not have the full range of vendors available that MDOT MVA might want to allow the opportunity to propose. Also, the RFP cited was reviewed and approved by DoIT, and was presented on their BPW agenda for approval. This was such an important and large project, MDOT MVA wanted to allow the best companies available on the open market to propose, not just those on the CATS contract.
- b. The Administration concurs with the recommendation. As of January 2017, MDOT MVA issues task orders detailing work to be completed, estimated hours, not-to-exceed limits, and completion dates for future work on this contract.
- c. The Administration concurs with the recommendation. As of January 2017, MDOT MVA has implemented a task order proposal review process to ensure proposed work and levels of effort are appropriate and reasonable to the task. The contractor produces a Work Breakdown Structure (WBS) detailing the tasks required to complete the task order, including estimated hours, milestones, and completion dates. The WBS is evaluated and adjusted as required to meet the task order requirements and keep costs at or below the funds allocated to the contract. The MDOT MVA process ensures the contractor adheres to the WBS parameters laid out in the contract.
- d. The Administration concurs with the recommendation. MDOT MVA project or contract managers ensure all contract deliverables are listed and monitored until completion. MDOT MVA project or contract managers have reviewed the Deliverables Tracker for the project and verified tasks to be monitored are sufficiently documented in the Deliverables Tracker. Project or contract manager updates the tracker as needed weekly. In May 2017, the MDOT MVA started to validate that executed signed acceptance forms are submitted for deliverables that are completed to the satisfaction of the MDOT MVA.
- e. The Administration concurs with the recommendation. As of January 2017, the MDOT MVA implemented a revised process to review and provide approvals for substituted resources. In addition, MDOT MVA prepares evaluations for any contracted resources as required by the contract.
- f. The Administration concurs with the recommendation. As of January 2017, the contract manager reviews, verifies and documents that billings are in accordance with provisions of the contracts and established task orders.
- g. The Administration concurs with this recommendation. MDOT MVA conducted a documented review of all invoices and determined that they were charged appropriately for the resource requested. The invoices reflected the wrong labor category for a resource. MDOT MVA requested that the vendor submit corrected invoices to reflect the appropriate labor category and the vendor made the changes.

In addition, formal contract management training is under development and will be presented prior to the end of July 2018 to all MDOT MVA Project Managers, Contract Managers, and Task Managers, as well as any employees, no matter the title or job classification, that are responsible for any type of management, monitoring, reviewing, and/or payment of contracts and invoices.

Finding 6**MVA did not adequately control electronically submitted vendor bids.****Recommendation 6**

We recommend that MVA

- a. establish procedures, such as requiring password protection, to properly secure competitively sealed bids received electronically;
- b. ensure that all competitively sealed bids are opened publicly; and
- c. maintain documentation of bid openings.

Response:

- a. The Administration concurs with the recommendation. We have established standard operating procedures (SOP) for bid openings, hardcopy and electronic. To ensure the appropriate level of security, as of October 1, 2017, the electronic bid opening SOP includes password protection requirements.
- b. The Administration concurs with the recommendation. We publicly open all competitive sealed bids, electronic and hardcopy effective October 1, 2017.
- c. The Administration concurs with the recommendation. Effective October 1, 2017, we document all bid openings by creating a bid summary which includes the contract number; bid opening date; and name, city, state, and total bid price of each bidder.

Cash Receipts**Finding 7****MVA did not have adequate procedures to ensure that differences between recorded collections and amounts deposited by branch offices were adequately investigated and resolved.****Recommendation 7**

We recommend that MVA

- a. Ensure that differences identified by the daily reconciliations and chargeback transactions are adequately investigated, including an examination of all relevant supporting documentation;
- b. maintain adequate documentation of the investigations performed; and
- c. provide for supervisory review and approval of the investigations and any resulting adjustments.

Response:

- a. The Administration concurs with this recommendation. In September 2016, the Accounting Division implemented new procedures (these procedures also apply to recommendations b and c) ensuring that differences identified in daily reconciliations and chargeback transactions are adequately investigated. Investigative support documentation is reviewed by the supervisor and maintained with the corresponding adjusting entries.

- b. The Administration concurs with this recommendation. The Accounting Division will continue to maintain adequate documentation of investigations performed.
- c. The Administration concurs with this recommendation. The Accounting Division will continue to ensure that the daily reconciliations, investigations, and corresponding adjustments are reviewed and approved by supervisory personnel.

Finding 8

Collections received at MVA headquarters for vehicle registration renewals processed at county offices were not adequately controlled.

Recommendation 8

We recommend that MVA

- a. secure checks prior to deposit and ensure they are recorded and restrictively endorsed immediately upon receipt (repeat);
- b. segregate the cash collection, account monitoring, and deposit verification functions (repeat); and
- c. monitor county transactions to ensure that all related collections and supporting documentation are received at least weekly by MVA in accordance with State law (repeat).

We advised MVA on accomplishing the necessary separation of duties using existing personnel.

Response:

- a. The Administration concurs with the auditor's recommendation. As of July 2016, the Accounting Division has implemented procedures to secure checks prior to deposit and ensure that they are recorded and restrictively endorsed immediately upon receipt. Further, effective March 3, 2017, all checks are received and restrictively endorsed by the remittance processor room supervisor.
- b. The Administration concurs with the recommendation and has implemented procedures as of July 2016 to segregate the cash collections and access, account monitoring, adjustments, and deposit verification functions.
- c. The Administration partially concurs with the auditor's recommendation. Late deposits have decreased significantly because of the MDOT MVA's close monitoring of this issue. Only 2 of the 12 locations have more than one occurrence of lateness, an improvement over the prior legislative audit where all locations had occurrences of lateness. The Accounting Division regularly monitors county transactions, and communicates with jurisdictions when aware of late transactions to ensure that all collections and supporting documentation are received at least weekly. Consistent with legislative audit recommendations, MDOT MVA will discontinue this program for counties who continue to submit late deposits. This could cause significant customer service issues for the nearly 20,000 customers who renewed their vehicle registration through this option in 2016.

Information Systems and Controls

Finding 9

Controls over the MVA virtual server environment did not properly protect critical virtual servers.

Recommendation 9

We recommend that MVA restrict administrative access to its virtual server environment to individuals whose job duties require such access.

Response:

The Administration concurs with the finding and as of March 31, 2017, the issue was resolved. The unauthorized access for the individuals was removed. Each agency has its own directory group and only sees their own environment. As of April 2017, quarterly reviews are conducted to review accesses. Results of each review are documented and reviewed/signed off by management.

Finding 10

Procedures for securing MVA's numerous computers were not sufficient.

Recommendation 10

We recommend that MVA

- a. ensure that all managed computers are running current, operational versions of its host based malware protection software by performing periodic comparisons of computer counts from its malware protection consoles to computer counts from its directory services; and
- b. document these comparisons and retain the documentation for future reference.

Response:

- a. The Administration concurs with the recommendation. Beginning April 1, 2017, bi-weekly reviews are being conducted to compare the number of devices per network directory records versus the number of managed devices. Separate bi-weekly reviews are conducted to ensure all devices have the latest malware/anti-virus software installed (not more than 90 days since last available update).
- b. The Administration concurs with the recommendation. Results of each review are documented and reviewed/signed off by management and retained for audit purposes as of April 2017.

Ignition Interlock Program

Finding 11

Employees responsible for reviewing and approving changes to critical data relating to the Ignition Interlock Program (IIP) also had access capability allowing them to change these data, compromising effective internal control over the Program.

Recommendation 11

We recommend that MVA

- a. take appropriate action to ensure that all changes to critical IIP information are subject to independent supervisory review and approval, and
- b. remove the IIP transaction deletion capability from all users.

Response:

- a. The Administration concurs with this recommendation. Programming revisions were completed in May 2017 to ensure an independent supervisory review of case modifications. The reports have been modified to reflect the user ID of both the individual performing the audit approval and the individual who performed the transaction. Additionally, the system has been programmed to block approval if the auditor approver and the individual who performed the transaction have the same user ID.
- b. The Administration concurs in part with this recommendation. The 'deletion' action is a tool used for queue management to remove an item from a work queue but does not remove the item from the record. Programming revisions in May 2017 limited this function to only the Section Manager and Business System Administrator because this type of functionality is still necessary in certain cases within the system. The program changes also allowed consolidation on certain entries on one soundex record where there are many work items.

Corporate Purchasing Cards

Finding 12

MVA did not adequately monitor corporate purchasing card (CPC) purchases and did not always comply with related State policies and procedures.

Recommendation 12

We recommend that MVA ensure compliance with the Corporate Purchasing Card Policy and Procedures Manual. Specifically, we recommend that MVA

- a. ensure that CPC transactions are not split to circumvent established controls and in violation of *Manual* requirements;
- b. incorporate and document the use of Level-3 purchasing card data in supervisory reviews of the activity logs to help ensure the propriety of CPC activity; and
- c. establish procedures to follow-up, in a timely manner, on potentially fraudulent transactions referred to the bank.

Response:

The Administration concurs with all recommendations.

- a. In August 2016 and again in February 2017, a Memorandum was distributed to all cardholders and reviewers as a reminder that split purchases are strictly prohibited. In addition, an email notification of this violation to the CPC policy and regulation is being sent to *specific* cardholders and their reviewers who are identified as either splitting a transaction or there is an *appearance* of splitting a transaction.

A revised notice related to cardholder security and card usage will be distributed to all cardholders and reviewers by December 2017. A Small Procurement Record (SPR) form is being developed to outline systematic procedures on how to make a small purchase of \$5,000 or less. Prior to April 2018, the SPR form will be distributed to all cardholders and reviewers, and posted on the Office of Procurement and Contracts intranet site, to be used when making a CPC purchase. A formal and updated CPC Training is under development and will be completed by all cardholders and reviewers prior to the end of July 2018.

- b. Effective September 2017, Level-3 purchasing card data and bank reports are analyzed monthly to ensure appropriate and compliant CPC activity. All questionable purchases are being addressed in writing by the CPC Program Administrator (CPCPA) via an email inquiry to the cardholder and reviewer. A valid response is required and documented by the CPCPA.
- c. Prior to February 2018, a standard operating procedure will be established for potentially fraudulent transactions that have been referred to the bank, including timelines for follow-up.

AUDIT TEAM

William R. Smith, CPA
Audit Manager

Richard L. Carter, CISA
Stephen P. Jersey, CPA, CISA
Information Systems Audit Managers

Julia M. King
Marissa L. Riddle, CPA
Senior Auditors

J. Gregory Busch
Matthew D. Walbert, CISA
Information Systems Senior Auditors

Monica G. Pressley
Dianne P. Ramirez
Tu N. Vuong
Staff Auditors