

Secretary of  
State  
**AUDIT  
REPORT**

Report No. 98-28 • July 17, 1998

**Driver and Motor Vehicle Services: A  
Limited Review of Cash Handling at  
Selected Field Offices**

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**Summary**

**PURPOSE**

This audit evaluates cash handling practices and procedures at selected Driver and Motor Vehicle Services (DMV) field locations. We reviewed procedures and practices in operation and evaluated their effectiveness to safeguard cash received and processed at those locations. The audit was limited to the daily balancing and deposit preparation process as it occurs in the field offices selected for review. It included a limited review of the management of access to those DMV systems involved in the daily balancing and deposit preparation process.

**BACKGROUND**

During the fiscal year July 1, 1996, through June 30, 1997, DMV offices collected more than \$125 million from license fees paid by drivers and motor vehicle owners. Each year, DMV processes approximately 750,000 driver licenses, 1.5 million vehicle licenses and 1 million vehicle titles. The approximately 70 DMV field offices statewide process about 63% of all driver license renewals and 44% of all vehicle registration renewals.

**RESULTS IN BRIEF**

The audit revealed areas of significant risk. Improvements are needed in physical controls over cash, daily balancing procedures, and controls over access to DMV's information systems.

In addition, we found that some DMV field office employees concurrently work for automobile dealers. This may present a real or perceived conflict of interest since these people are also employed by an industry DMV regulates.

**RECOMMENDATIONS**

DMV's cash handling practices and information system access controls for cash management systems can be improved by doing the following:

- Require field offices to periodically evaluate the physical security risks to cash and report the results to management for appropriate action.
- Develop new or modify current procedures to provide greater assurance that cash will be adequately secured against theft or loss and to assure that all cash will be accurately recorded and properly deposited.
- Require DMV Field Services, DMV Information Technology and ODOT Information Systems Branch to jointly develop standards and policies to address the various aspects of systems access and provide relevant guidance to field management and staff. Provide field locations with reports of users' access to the systems so that needed changes can be made in a timely manner and assign responsibility for monitoring at the appropriate level.
- Provide training to all staff on all new policies and procedures implemented.
- Review the practice of allowing DMV employees to be also employed by automobile dealers and refer the issue to the Government Standards and Practices Commission.
- Maintain dealer logs as required for other key financial records.

**AGENCY'S RESPONSE**

Driver and Motor Vehicle Services generally agrees with the recommendations.

## INTRODUCTION

Driver and Motor Vehicle Services (DMV) is the branch of the Oregon Department of Transportation responsible for regulatory requirements for driver and vehicle licensing and vehicle titles for approximately 2.8 million drivers and 3.3 million vehicles registered in Oregon. DMV licenses qualified persons and vehicles to drive on streets and highways. Each year, DMV processes approximately 750,000 driver licenses, 1.5 million vehicle licenses and 1 million vehicle titles.

## BACKGROUND

The majority of DMV's revenues comes from license fees paid by drivers and motor vehicle owners. The revenues are dedicated to highway improvements and safety programs. During the fiscal year July 1, 1996, through June 30, 1997, DMV took in more than \$125 million, of which 53.5% was used to fund DMV operations. The remaining 46.5%, or \$58.3 million, was transferred to other agencies and other programs. Most of these revenues were received from driver and vehicle licensing and vehicle title transactions.

Daily, about 12,000 customers are served at almost 70 DMV field offices statewide, including DMV Express offices open evenings and Saturdays at major shopping malls. Half of DMV's work force staffs these locations, which process approximately 63% of all driver license renewals and 44% of all vehicle registration renewals.

Each field location is connected to DMV's central information systems located in Salem. DMV staff, when processing transactions over the counter, are accessing two different systems to process driver and vehicle transactions. The NLS, or "New Licensing System," is the central repository for customer information, which includes name, address, physical descriptions and personal information. The "DRIVE" system is the real-time transaction processing system through which all driver and vehicle licenses, registrations and renewals are processed and accounted for daily. It is through the DRIVE system that all cash received by DMV field locations is

accounted for daily, balanced and processed into ODOT's accounting records.

## AUDIT RESULTS

### Physical Safeguards for Cash

During our review of cash controls at the five selected field offices, we noted a number of practices indicating that physical security over cash may not be adequate to prevent or timely detect loss or theft of funds during the normal course of daily business and after hours. For example, we noted the following:

- Individuals are personally transporting large amounts of cash to and from banks to make deposits and/or to buy smaller cash denominations with which to make change.
- In two of the five offices that handle dealer transactions, the unprocessed dealer work, which includes checks tendered with the paperwork, is not locked up or otherwise secured during off hours.
- Once deposits are tallied, they are not secured to prevent further access. Rather, they are used for making change throughout the day until either picked up by an armored service or delivered to the bank by a DMV employee. Making the deposit available as a source of change after it has been tallied and verified greatly increases the potential for errors and irregularities. This problem has been reported also by the Oregon Department of Transportation (ODOT) internal auditors in two reports on field office internal controls and security.<sup>1</sup>
- During a visit to one field office, we observed that the safe was left open although no DMV employee was present in the room at the time.
- Two offices informed us of non-functioning security systems, and one reported non-functioning cash drawer locks. Non-functioning

security systems has also been reported for other DMV field offices by the ODOT internal auditors.

- The number of employees issued keys to the buildings may be excessive. Some of these employees also have access to the safes. For example, at the time of audit, there were 12 Springfield office employees, all of whom had building keys. Six employees also had access to the safe. By contrast, the North Salem office employed 15 of whom six had building keys and only three had safe access. In the smaller offices, we noted that all employees had building keys and access to the safes. Having access to both the building and the safe increases the risk to the items stored in the safes during non-business hours. The safe contents are accessible to more people than may be considered prudent under good business practices.

Many of the above-noted items, when considered alone, do not pose a significant amount of risk to cash. When taken together, however, we believe that the risk of loss or theft is greatly increased.

We were unable to determine why these situations occurred, since DMV has a fairly complete field services manual that already addresses some of these issues. For example, the manual requires that unprocessed dealer paperwork be stored in a secure area such as a locking file cabinet.<sup>2</sup> Another procedure states that keys should be issued only to those employees who will need access to the buildings at night or to open in the morning.<sup>3</sup> That same procedure specifies office safe procedures which include assuring the safe is closed and locked. It appears the manual is not being adhered to or consulted for reference when needed; therefore, additional training may be needed.

<sup>1</sup> Reports dated January 11, 1996, and November 12, 1997

<sup>2</sup> Processing Dealer Transactions, OPS-09, updated 05-97

<sup>3</sup> Field Office Security, SAM-01, updated 07-97

**We recommend** DMV do the following:

- Review field offices' needs for change funds considering the unique requirements of each office. Change funds should be increased to appropriate levels so that bank deposits are not used for making change.
- Consideration should be given to placing orders for cash with armored car services (especially at the field offices that already subscribe to such services) to reduce the physical risk to employees and cash when it is transported by staff in an unsecured manner.
- Field office management and staff perform annual risk self-assessments of their office's cash handling practices and physical security needs. A well-designed assessment could identify the types of issues noted in this report. Such a review could be used by local, regional and central management to evaluate the efficiency and effectiveness of DMV field office operations, policies and procedures.
- Review the field services manual for adequacy to address the issues noted in this report and make any changes needed to assure compliance. Provide training to field office staff to heighten awareness of cash management issues and requirements.

**Agency Response:**

*Currently, change funds are made from DMV's revolving fund and so are limited overall to the statutory maximum of \$40,000. DMV is analyzing its change fund needs and exploring options with ODOT to reduce reliance on prior day's receipts as a source for making change. This includes reviewing the availability, cost and practicality of adding and/or expanding armored car service wherever possible.*

*During the first quarter of 1999, we will be reinstating periodic risk assessments for each field office working with law enforcement and*

*security experts as well as ODOT FSB in developing our evaluation tools and method.*

*DMV Field Services is also developing refresher training for all employees. The training will include the report preparation process and will be provided in the late fall and winter of 1998/1999.*

### Segregation of Duties

The deposit preparation process (called "report preparation procedure") that occurs daily in each field office does not involve an adequate number of persons to detect errors or prevent theft in a timely manner. Each day in each office, the entire process is performed by one person (called the "report person"). DMV report preparation procedures do not require that the daily balancing process involve more than one person.<sup>4</sup> Thus, the process as is complies with current procedures.

The process includes balancing the previous day's cash receipts and supporting documents to system reports, making corrections to transactions and inventory amounts, and preparing and making the deposit. Thus, the report person has the ability to change, add and delete transactions and control the amount of the corresponding deposit for the previous day's business. If the report person worked the counter the previous day, this person would also be able to make changes to or delete his or her own work. At offices that don't use an armored car service, the report person also delivers the deposit to the bank.

The increased risk to cash presented by the lack of adequate segregation of duties in the daily balancing process is compounded by a lack of adequate segregation of system access levels. The ability to perform the report preparation process requires a specific system access level. As discussed later in this report,<sup>5</sup> we found that many employees are assigned the access level necessary to perform the report function in addition to the normal transaction processing access level. Many of these

<sup>4</sup> see DMV's Field Services Administration Manual

<sup>5</sup> see section subtitled "Access to DMV's Computer System"

people also have the highest level of access available ("manager" access). Since many people can do all that the system allows, any security built in to the system by virtue of the different access levels is completely negated.

**We recommend:**

- Where possible, DMV involve more than one person at key points in the daily balancing process such as when the previous day's receipts are first counted and again when the deposit is prepared. For other applicable recommendations, see next subsection titled, "Deposit Errors."
- Review and reduce, where possible, the number of people with too many access levels. For other applicable recommendations, see subsection titled, "Access to DMV Computer Systems," later in this report.

**Agency Response:**

*The Field Services Administration Manual will be revised by August 31, 1998, to require, where staffing allows, that field office deposits be verified by the manager or designee prior to the deposit being made. Taking into account our current data processing needs and priorities, we will also be reviewing access levels and the functions assigned to each level and will delete those employees who no longer need "manager" access. We believe that with increased emphasis on training, monitoring, and quality control of the daily report preparation and balancing process, we can continue to involve as many employees as possible in all office functions.*

### Deposit Errors

Field offices are making numerous errors on their daily deposits. For example, in December 1996, 19 DMV locations had recorded errors in their deposits. In March 1997, 20 locations had errors, and in May 1997, 25 locations made errors. Similar numbers of errors were made in other months. This increases the workload in ODOT's Financial Services Branch where the errors have to be researched and corrections made in the accounting records.

We identified several possible reasons this is happening. For example:

- Amounts to be entered on the deposit slips do not necessitate a direct tally of currency and checks; rather, they can all be obtained from the various system reports. Should the reports reflect amounts that differ from actual cash and checks on hand, filling out the deposit slip from the reports can give the appearance of being in balance for the day when a shortage or overage actually exists. Any shortages or overages will eventually surface as deposit errors when the bank proofs the actual deposit and reports the discrepancy.
- As noted in the previous section, offices are not securing the deposits immediately at the conclusion of the daily balancing process. Instead, these funds are used to make change. Each time someone gets into the deposit, it increases the chance of problems occurring with the total amount of the deposit.
- Deposits are not subjected to any kind of independent review or approval to assure they are correct prior to being made. Independent review and approval of deposits are needed to compensate for the control weaknesses identified in the preceding section and because the deposits are accessed for change-making.
- Some of the deposit errors are made more difficult to resolve when the field offices discover the errors and do not follow established procedures to process corrections.

When we reviewed the ODOT Financial Services Branch listings of deposit errors, we noted such explanations as “checks left out of deposit,” or “cash not included in total deposit amount.” We were advised that most of the errors do not represent actual shortages or overages but, rather, are recording errors that are caught and corrected by the banks and ODOT after the fact. With so many errors occurring, however, true overages and shortages may be obscured, making it

less likely that they will be acted upon in a timely manner.

DMV’s Field Services Administration Manual provides a 31-page detailed procedure for performing the daily balancing and deposit process. The procedure is titled “Report Preparation Procedure”<sup>6</sup> and focuses on balancing the day’s driver and vehicle transaction documentation to preliminary and final system reports. The preparation of the actual deposit is included, but is addressed in a vague and somewhat incidental manner. Detailed procedures specifically addressing deposit accuracy are needed. For example, steps such as recounting the deposit if it has been used to make change or securing the cash deposits until they are delivered to the bank are not mentioned. The procedures do not require that the deposit be reviewed by someone not otherwise involved with its preparation. These types of procedures would likely catch most errors and also would assign responsibility for the accuracy of bank deposits and accounting.

DMV Field Services management indicated they have been unaware of the errors. ODOT Financial Services has not routinely communicated to DMV management regarding the high volume of errors. Thus, DMV has not been able to utilize such information for performance evaluation or for improving operational efficiency.

**We recommend** the following:

- DMV Field Services management, in the report preparation policy, place more emphasis on accurate deposit preparation and provide additional training to field management and staff as needed. Consideration should be given to restricting the daily balancing process to a limited number of individuals to assure consistency and accuracy in the process.
- Revise the procedure manual to require verification of the actual count of currency and checks to the deposit slip just prior to the deposit being delivered to the bank. This is especially important when the

deposit is used for making change during the day.

- Revise the procedure manual to require that field office management or lead workers review and approve the daily deposits prior to their being submitted to the bank.
- ODOT Financial Services Branch implement a procedure for notifying DMV management of the number and types of errors made by field offices in their deposits. This information can then be used by DMV management as a tool to gauge performance efficiency and to improve procedures and training.

#### **Agency Response:**

*We agree that office management and/or lead workers should review the daily deposits where possible. This change will be implemented this fall. Additionally, DMV Field Services and ODOT FSB will formalize the current informal procedure for providing feedback on deposit errors.*

### **Access to DMV’s Computer Systems**

The controls over managing access to DMV systems need to be strengthened to reduce the risk of unauthorized access.

#### **Log-on ID’s**

For the four field offices reviewed, we noted the number of people with computer access was significantly greater than the number of current employees. For example, at the time of our review, the Dallas field office reported three current employees, yet the system reflected 24 separate log-on identifications (IDs). Since each person generally has only one log-on ID, this leaves more than 20 logons for employees not currently assigned to this location. At the North Salem field office, which reported 15 current employees, the system reflected 56 log-on IDs. The other two offices (Springfield and Newport) reflected equally disparate figures. Though there is a need for some people to have access at more than one office to serve as back-up staff and also for technical support people to have access, these

<sup>6</sup> Report Preparation Procedure, OPS-10, updated 07-97

extra log-on IDs create an increased risk of unauthorized system access. As the number of employees allowed access to the system increases through extra log-on ID's, so does the risk of unauthorized system access.

The DMV Helpdesk at the ODOT Information Systems Branch is responsible for adding and deleting log-on IDs from DMV's systems as requested and authorized by field office management. This group also can produce a report listing all the individuals who have access to the DRIVE system. This information is not distributed to field office managers for their review, however. Because each field office's management has the authority for determining employee access, responsibility for updating and monitoring that access is also logically their responsibility. Providing these reports periodically to the field office managers would give them an easy vehicle for monitoring for appropriate access and authorizing changes.

#### Access Levels

We also noted a lack of adequate segregation of functions in the assignment of access levels to DRIVE. At some field offices, too many people have too much access. For example, at the time of our review, at one office of 15 employees 13 had been assigned all levels of system access. At another field office of 12 employees, seven had been issued all levels of system access.

In DRIVE, the various transaction processing, report processing, and correction/manager override functions have been separated into several different levels of access called "permissions." If assigned appropriately, these permissions can help to ensure that only those transactions that are properly authorized are processed by the system and also aid in the timely prevention and detection of improper transactions in the normal course of daily activity. Ideally, access functions that allow for modifying transactions after they are initiated should not generally be assigned to the same people who process the transactions initially. Likewise, access functions that allow for deleting or voiding transactions should not be assigned to either of the preceding two groups. Multiple access

levels are generally designed into systems to provide for built in security. Assigning all levels to one person negates that security.

DMV places a heavy emphasis on delivering customer service; thus, giving employees unrestricted access to more system functions may appear logical. However, each person that is assigned all levels of access to the system is in a position to control transactions and perpetrate and conceal errors and theft with a reduced risk of timely detection. If limiting certain functions to certain individuals is not operationally feasible, as may be the case in small offices, the increased risks must be counterbalanced by strong compensating controls such as an active management review and approval function for certain types of transactions and reports.

#### Security Policy

DMV does not have an information systems security policy, and the Field Services Administration Manual provides very limited guidance on system security. A policy on the various aspects of system security such as organizational system security goals, criteria for determining needed levels of access, password controls, employee responsibilities for supporting system security goals, etc. would provide guidance as well as define responsibilities. The state's Department of Administrative Services, Information Resources Management Division has developed state guidelines for creating a comprehensive information systems security policy that should provide a model for management's use.

#### Password Control

We have discussed with management additional concerns with the confidentiality of passwords in the NLS and DRIVE systems. These concerns relate to password storage, access to password files and encryption procedures which may not be adequate to assure that access to these systems is limited to only authorized persons.

#### We recommend DMV:

- Field Services group and the Information Technology group work together to establish guidelines for assigning access levels that provide

for adequate segregation of functions. Where staffing limitations make this impractical, we recommend certain key transactions (e.g. deletes, inventory adjustments, daily reports) be reviewed and approved by field management.

- Periodically provide field locations with security reports listing the individuals who currently have system access. Assign field managers the responsibility for timely review of the reports and assuring that access is appropriately restricted to job related need.
- Field Services group and the Information Technology group work together to develop a comprehensive information systems security policy, codify the policy in the field services manual, and provide training to all DMV staff on the policy.
- Address issues related to use of passwords for the NLS and DRIVE systems by implementing procedures to assure that passwords are kept confidential and access to these systems is limited to only authorized persons and relate specifically to job responsibilities.

#### Agency Response:

*We recently prepared office access lists, reviewed them, and made needed changes. By September 30, 1998, Field Services and Information Technology Services will have established an on-going process to keep system access current. They will also jointly develop policies and procedures related to systems security which will be included in the refresher training in the fall. Although we believe current practices provide a reasonable level of security given the constraints and age of our current system, we will consider additional password security factors as we update current systems and develop new applications.*

#### Employing Persons Who Concurrently Work for Automobile Dealers

Employees at some DMV field offices are concurrently employed by

automobile dealers. Though the practice is permitted by DMV policy, it may represent a conflict of interest under Oregon ethics laws for public employees.<sup>7</sup> It also has the appearance of inappropriateness given the regulatory nature of DMV's activities of the motor vehicle industry.

DMV dealer/employees are prohibited by policy from processing their employer's dealer transactions but are not prohibited from representing the dealer and signing out the completed work and any related cash refunds. At one of the field offices under review, we noted that a DMV/dealer employee routinely signed out completed work and the accompanying cash refunds for her employer's dealer group. One of the dealers in the group routinely had cash refunds. We were advised the employee did this at the end of her DMV work shifts. This situation places the employee and the DMV field office at risk if there are any problems with the transactions or amounts refunded. These type of refunds are always distributed in cash, not through checks or dealer credits. Cash transactions are inherently high risk.

**We recommend** DMV management review the practice of employing persons who are also employed by automobile dealers and refer the issue to the Government Standards and Practices Commission (GSPC) for advice.

**Agency Response:**

*DMV is already reviewing this practice, and has consulted the executive director of the GSPC on several matters where a perception of conflict or appearance of inappropriateness may exist. Although the verbal advice received indicates the current limited practice does not violate ethics laws, DMV will request a staff opinion. The specific problems noted in one office were not consistent with prescribed practices and have been corrected.*

<sup>7</sup> The Government Standards and Practices Commission oversees the related laws, which are contained in Oregon Revised Statutes, Chapter 244.

### Dealer Logs

By procedure, each DMV office maintains a log called the "Dealer Log," which reflects the individuals in that office involved in each step of handling dealer transactions (such as initial delivery of documents, processing, and pick up of completed documents). These logs represent books of original entry, since they are the only place some of this information is recorded. There is no requirement to keep the logs, however, and field offices periodically purge the completed pages. Once pages in the log are thrown away, there is no record of who accepted the work when it came into the DMV office or who picked up the completed documents and any related cash refunds. Thus, questions that arise about the receipt or subsequent pick up of dealer transactions cannot be answered without the log.

**We recommend** that the dealer logs be kept in the manner of other accounting information as required by state rules and regulations.

**Agency Response:**

*By August 31, 1998, DMV Field Services will consult with ODOT FSB and ODOT Records Management to determine the appropriate retention schedule for dealer logs, notify each field office, and add the retention requirement to the procedure manual.*

### SCOPE AND METHODOLOGY

We focused our review on cash handling practices and controls at several DMV field locations (Dallas, North Salem, Springfield, Newport), and at the South Salem location to a much more limited extent. Between January and August 1997, we visited the offices and observed the opening, closing and daily balancing processes and made inquiries about and observed the physical security controls.

We interviewed managers and staff at the field locations on their cash receipting practices, segregation of duties, security of bank deposits and physical access controls.

We also gained a basic understanding of the roles played by ODOT Financial

Services Branch staff and DMV headquarters units and staff in the process of accounting for and balancing the field offices' daily transactions and recording the resultant revenues into ODOT's accounting system.

In doing the above, we identified several specific issues that warranted further review and/or detailed testing of transactions. Thus, we tested the timeliness of deposits for four of the offices, reviewed the processing of dealer transactions at the North and South Salem offices, made inquiries and observations about how inventory is accounted for and controlled at the field locations, reviewed how memorandum receipts<sup>8</sup> are used and accounted for, and made inquiries and observations about how change is made from the daily bank deposits. We then obtained and reviewed a copy of DMV's current cash handling procedures and compared these to what we noted in practice at the field locations.

Additionally, because of the highly automated nature of DMV's cash receipting process, we performed a limited review of system access controls over the DRIVE system at the field office level and at the central level. We gained an understanding of the security function, how the system is accessed and the different access levels DMV personnel have available in DRIVE. Further, we analyzed system reports to determine if adequate segregation of duties was being maintained when assigning access. We also made inquiries of management about access controls over the NLS, how the two systems interface, and what measures are taken to assure that access is limited to only those persons whose job duties require it and only to the extent they need to perform their currently assigned duties.

The audit was designed to evaluate the effectiveness of procedures and practices in operation to safeguard cash at the locations selected for review. Accordingly, it could not be expected to, and did not, detect errors and irregularities if such have in fact

<sup>8</sup> Memorandum receipts are used to account for miscellaneous transactions, such as fees for inspections and non-inventory items.

occurred. Rather, the purpose of the audit was to identify risks to cash.

This audit was conducted in accordance with generally accepted government auditing standards. We

limited our review to the areas specified in this section of the report.

*This report is a public record and is intended for the information of the management of the Oregon Department of Transportation (ODOT), the ODOT Driver and Motor Vehicle Services Branch, the ODOT Information Systems Branch, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties. This report is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us and <http://www.sos.state.or.us/audits/audithp.htm>.*

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*The courtesies and cooperation extended by the officials and employees of the Department of Transportation and the Driver and Motor Vehicle Services Branch during the course of this review were commendable and sincerely appreciated.*

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