

STATE OF WEST VIRGINIA

REPORT OF

INTERNAL CONTROL EXAMINATION OF THE WEST VIRGINIA DIVISION OF MOTOR VEHICLES MARTINSBURG REGIONAL OFFICE

For The Period

MARCH 15, 1996 - APRIL 4, 1997



OFFICE OF THE LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305-0619

INTERNAL CONTROL EXAMINATION OF THE
WEST VIRGINIA DIVISION OF MOTOR VEHICLES
MARTINSBURG REGIONAL OFFICE
FOR THE PERIOD
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INTERNAL CONTROL EXAMINATION OF THE
WEST VIRGINIA DIVISION OF MOTOR VEHICLES
MARTINSBURG REGIONAL OFFICE

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**INTERNAL CONTROL EXAMINATION OF THE
WEST VIRGINIA DIVISION OF MOTOR VEHICLES
MARTINSBURG REGIONAL OFFICE
EXIT CONFERENCE**

We held an exit conference on August 13, 1997 with the Commissioner of the Division of Motor Vehicles and several members of her staff and all internal control deficiencies were reviewed and discussed. The responses of the Commissioner of the Division of Motor Vehicles are included in italics in the Summary of Deficiencies Noted, Recommendations and Responses and Deficiencies Noted and Recommendations For Improving Internal Control sections of this report.

**INTERNAL CONTROL EXAMINATION OF THE
WEST VIRGINIA DIVISION OF MOTOR VEHICLES
MARTINSBURG REGIONAL OFFICE
ADMINISTRATIVE OFFICERS AND STAFF**

Charleston Headquarters

Ms. Jane L. Cline Commissioner
Mr. Richard M. Johnston Director of Management Services

Martinsburg Regional Office

Mr. W. Craig Loy Manager
Ms. Sandra S. Spiker Supervisor
Ms. Patricia J. Cruz Customer Service Representative
Ms. Mary F. Custer Customer Service Representative
Ms. Leslie Gantt Customer Service Representative
Ms. Michelle Martin Customer Service Representative
Ms. Cora McDonald Customer Service Representative
Ms. Misty Porterfield Customer Service Representative
Ms. Shirley Sinnott Customer Service Representative
Ms. Holly Sutherland Customer Service Representative
Ms. Deanna Young Customer Service Representative

INTERNAL CONTROL EXAMINATION OF THE
WEST VIRGINIA DIVISION OF MOTOR VEHICLES
MARINSBURG REGIONAL OFFICE

PURPOSE OF AN INTERNAL CONTROL STRUCTURE
IN GOVERNMENT

A governmental entity's internal control structure is defined as the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved. An internal control structure consists of three elements: 1. the control environment which denotes the agency's overall attitudes, actions and awareness concerning the emphasis and importance of controls; 2. the accounting system which is the agency's method of recording and processing transactions; and, 3. the control procedures which are the specific methods designed to develop a system of checks and measures to ensure accountability.

A governmental entity is accountable to the public and to other levels and branches of government for the resources provided to administer government programs and services. The resources provided to that particular governmental entity should be administered in accordance with applicable laws and administrative regulations. The resources should be applied efficiently, economically and effectively.

An effective internal control structure for a governmental entity should ensure that: goals and objectives of the agency are met; assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and that revenues and

expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of assets may be maintained.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgement, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements.

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance



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CHARLESTON, WEST VIRGINIA 25305

The Joint Committee on Government and Finance:

A customer service representative (CSR) employed at the Martinsburg Regional Office of the West Virginia Division of Motor Vehicles (DMV) signed an admission to embezzling \$837.50 on or about March 17, 1997. The Legislative Post Audit Division was directed to examine procedures used in the Martinsburg Regional Office to determine how similar acts of embezzlement could occur. To facilitate this determination, we performed the following:

- 1) Information concerning the control environment, accounting system and control procedures was collected through observation, review of transactions and interviews with key personnel of the Martinsburg Regional Office. We outlined procedures based upon our interpretation of the individual staff members.

In order to accomplish the embezzlement noted above, a technique was utilized that involved the voiding of an inventory transaction and a title transaction from the cash remittance system. We found that an error-corrected transaction could also constructively be used in a manner similar to a voided transaction for the purpose of embezzlement. Therefore, we focused our efforts on the titling process, voids, error corrections and inventory controls. We observed the actual procedures and controls currently in place to identify significant deficiencies in the control structure.

- 2) The CSR involved in the embezzlement was able to approve their own voids and error corrections. Generally, we found that the voided and error-corrected transactions processed by the other customer service representatives appear to

have been approved by appropriate supervisory personnel. We believe, however, that there are deficiencies in the approval process. Based on these assessments, we focused the majority of our examination on the nature and frequency of voided and error-corrected transactions for all customer service representatives.

- 3) We obtained all cash remittance system register tapes from the period of March 15, 1996 through April 4, 1997 and chose a sample of fifty (50) business days to examine. We chose our sample by utilizing the discover (or exploratory) statistical sampling method. Discovery sampling is most often used in practice when no occurrences would be expected and, therefore, even one occurrence would cause concern. Information obtained from the customer service representatives' register tapes was scheduled and quantitatively analyzed as follows:
 - a.) Voids and errors were compared to the correcting entries, if applicable. Differences between the correcting entries and the voids/errors were examined.
 - b.) Voids and errors were compared to the corresponding original entry. Differences between the original entries and the voids/errors were examined.
 - c.) For each CSR, we determined the number of business days on which a void or error correction occurred. Then, the total number of voided or error-corrected transactions occurring on these days was calculated. We divided the total number of occurrences by the number of days on which there was a voided or error-corrected transaction to arrive at the average number of voided or error-corrected transactions occurring on any one day. This allowed us to concentrate our efforts on a day with a higher than average occurrence rate or on only those days when the respective CSR had processed a voided or error-corrected transaction.
 - d.) We calculated the percentage of voids and errors to the total number of transactions on a daily basis. The daily error rates of all customer service representatives were compared.

- e.) We analyzed and evaluated the number of voids and error corrections to the total number of transactions for each CSR. In addition, we analyzed the percentage of voids and error corrections per customer service representative to the total number of voids and error corrections for all customer service representatives.

Sincerely Yours,


Theodford L. Shanklin, CPA, Director
Legislative Post Audit Division

June 3, 1997

Auditors: Michael E. Sizemore, CPA, Supervisor
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**INTERNAL CONTROL EXAMINATION OF THE
WEST VIRGINIA DIVISION OF MOTOR VEHICLES
MARTINSBURG REGIONAL OFFICE**

**SUMMARY OF DEFICIENCIES NOTED, RECOMMENDATIONS
AND RESPONSES**

We noted the following deficiencies in the internal control structure:

1. We noted on several title applications involving sales transactions between individuals that changes had been made to the sales price of the vehicle. In supporting the amount of privilege tax charged, an effective approval and follow-up process does not appear to be in place to ensure that the purpose of any change or alteration in selling price was not made to either avoid the payment of privilege tax by the purchaser or to allow a Division employee the opportunity to abscond a portion of the privilege tax paid by the purchaser. Both of which can be the objective of such changes or alterations. The Division has significant controls in place with respect to sales transactions involving vehicle dealers. We believe, controls over sales between individuals where amounts have been altered or changed on official documents need to be strengthened.

We Recommend:

- a. The Division of Motor Vehicles should develop a system of supervisory approval and direct follow-up with the vehicle seller with respect to any changes or alterations made to the assignment of vehicle titles or title applications where such transactions are between individuals.
- b. The Division of Motor Vehicles should consider requiring the submission of notarized bills of sale with respect to vehicle sales between individuals in order to ensure the selling price claimed on the title application and assignment of vehicle title is the same as the amount stated on the bill of sale.

Agency's Response

The Division's management relies on Customer Service Representatives (CSR's) to bring questionable title transactions to management's attention. In addition, management has acted to strengthen the internal control structure over voided transactions and error corrections. The Division attempts to protect the State from below market transactions by requiring notarized bills of sale for vehicles over two years old whose purchase price is less than 50% of the NADA average loan value. (See pages 15-17).

2. It appears that the lead customer service representative at the Martinsburg Regional Office was able to approve their own voids and error corrections without direct or subsequent approval of the Regional Office Supervisor or Regional Office Manager.

We Recommend:

- a. All voids and error corrections should be approved by an individual properly authorized and independent of the transaction. In addition, the nature of the void or error correction should be determined and a review of the supporting documentation should be performed by authorized personnel before approval of the transaction is granted.

Agency's Response

Management agrees with this recommendation. New procedures are being drafted to implement the recommendation. (See pages 17 and 18).

3. According to Martinsburg Regional Office personnel, minor inventory adjustments are made as an increase or decrease of normal usage on the form DOT-6 "Inventory Usage and Transfers". In such cases, an inventory overage would be reflected as a decrease in usage while an inventory shortage would be adjusted through showing an increase in usage. For larger inventory overages, inventory adjustments are recorded as a receipt of materials on the form known as a DOT-5 "Receipt of Materials/Services Record".

We Recommend:

- a. Inventory adjustments, regardless of size, should be shown separately on individual DOT-6 or DOT-5 forms, and should not be included with any inventory usage or receipt of inventory materials as has been the previous practice.
- b. All adjustments should be reviewed and approved by the Regional Office Manager following a determination of the nature and cause of the overages or shortages.

Agency's Response

Management agrees with both of these recommendations and will make needed changes to the policy and procedures manual to implement them. (See page 18).

4. The serial numbers of decals are not recorded when sold.

We Recommend:

- a. The decal serial numbers should be recorded in the cash remittance system as a means of enhancing controls to ensure the proper disposition of decals. One option would be for DMV to develop an inventory system based on bar coding.

Agency's Response

Management believes recording serial numbers from decals would be of limited value because the Division lacks sufficient staff to reconcile the decal number sold to decals assigned to each CSR. Management agrees with the recommendation to consider an inventory system based on bar coding and will study it; however, the initial start-up cost must be considered in order to determine the most feasible method of making such changes. (See pages 18 and 19).

5. Customer service representatives are permitted to sign out many "near cash" inventory items on an "as needed" basis. Only two inventory item types are assigned to the customer service representatives: (1) the standard class A license plates and (2) all types of decals are issued.

We Recommend:

- a. The Regional Office Supervisor or Regional Office Manager should issue all "near cash" inventory items to maintain proper control over inventory.

Agency's Response

We will implement the audit recommendation. (See page 20).

6. The regular class A plates assigned to the customer service representatives remain at the "work stations" after hours.

We Recommend:

- a. All "near cash" inventory items assigned to the customer service representatives should be stored in a secure location after hours.

Agency's Response

We will implement the audit recommendation. (See page 20).

7. Storage cabinets in the inventory room are not locked the majority of the time. These cabinets contain license plates and decals that are not assigned to the customer service representatives, but are held in a common lot to be used on an "as needed" basis.

We Recommend:

- a. Only those individuals with proper authorization (namely the Regional Office Supervisor and the Regional Office Manager) should have access to any "near cash" inventory storage cabinet or area.

Agency's Response

We will implement the audit recommendation. (See page 20).

**DEFICIENCIES NOTED AND RECOMMENDATIONS
FOR IMPROVING INTERNAL CONTROL**

Evaluating the ratio of voids and error corrections to total transactions establishes a level of opportunity that each CSR would have to potentially commit a similar act of embezzlement at the Martinsburg Regional Office. The "Rate of Occurrence" calculation includes both voids and errors as a percentage of total transactions. The following schedule quantitatively illustrates the number of transactions, voids, errors and the total dollar amount of transactions processed by each customer service representative during the fifty (50) sample business days.

<u>CSR Number</u>	<u>Total Transactions</u>	<u>Number of Voids</u>	<u>Number of Errors</u>	<u>Rate Of Occurrence</u>	<u>Total Dollar Value of Voids and Errors</u>
1	1,696	22	11	1.95%	\$ 1,586.85
2	4,066	50	17	1.65%	\$ 5,433.09
3	3,728	36	9	1.21%	\$ 7,300.50
4	2,408	45	13	2.41%	\$ 5,788.76
5	8,331	115	51	1.99%	\$15,571.90
6	2,477	25	11	1.45%	\$ 6,250.08
7	7,855	118	61	2.28%	\$17,132.26
8	561	3	0	0.53%	\$ 44.00
9	1,338	13	6	1.42%	\$ 1,262.00
10	1,429	4	26	2.08%	\$ 5,760.70
11	<u>1,642</u>	<u>19</u>	<u>5</u>	<u>1.46%</u>	<u>\$ 1,282.32</u>
Total	<u>35,541</u>	<u>450</u>	<u>210</u>	<u>1.86%</u>	<u>\$67,412.46</u>

As the totals in the schedule show, on the fifty (50) sample business days, the CSR's processed 35,541 transactions of which 660 transactions were voids or error corrections. The dollar value of

these voided and/or error-corrected transactions was \$67,412.46. The overall error rate was 1.86% or about one of every fifty transactions.

In addition, we projected the number and dollar value of voided and error-corrected transactions processed by each customer service representative over the entire 262-day examination period as follows:

<u>CSR Number</u>	<u>Total Transactions</u>	<u>Number of Voids</u>	<u>Number of Errors</u>	<u>Rate of Occurrence</u>	<u>Total Dollar Value of Voids and Errors</u>
1	8,887	115	58	1.95%	\$ 8,315.09
2	21,306	262	89	1.65%	\$ 28,469.39
3	19,535	189	47	1.21%	\$ 38,254.62
4	12,618	236	68	2.41%	\$ 30,333.10
5	43,654	603	267	1.99%	\$ 81,596.76
6	12,979	131	58	1.45%	\$ 32,750.42
7	41,160	618	320	2.28%	\$ 89,773.04
8	2,940	16	0	0.53%	\$ 230.56
9	7,011	68	31	1.42%	\$ 6,612.88
10	7,540	21	136	2.08%	\$ 30,186.07
11	<u>8,604</u>	<u>100</u>	<u>26</u>	<u>1.46%</u>	<u>\$ 6,719.36</u>
Total	<u>186,234</u>	<u>2,359</u>	<u>1,100</u>	<u>1.86%</u>	<u>\$353,241.29</u>

Based on our projection, the CSR's at the Division's Martinsburg Regional Office processed a total of 186,234 transactions, including 3,459 voided and/or error-corrected transactions during the study period. The dollar value of the voided and/or error-corrected transactions totaled \$353,241.29.

In our initial evaluation of voids and error corrections we included all transactions types (titles, license plates, decals, placards, etc.). However, based on our observations, it appears that the DMV's greatest risk for potential loss is in the vehicle registration process including the collection of privilege tax. For most vehicles registered in West Virginia, a five percent privilege tax is charged on either the actual purchase price of the vehicle or the average loan value as stated in the National Auto Dealers Association's (NADA) "blue book". Certain vehicle classifications are exempt from privilege tax.

Some vehicle valuation guidelines have been established by the DMV. Privilege tax charged on vehicles that are less than two years old is based on the greater of the purchase price or the average loan value. If the vehicle is older than two years, there is more latitude in the value that can be claimed for privilege tax purposes. We discovered what we believe to be a "gap" in the guidelines established for determining vehicle values. In the case where a vehicle is two or more years old and there is not a notarized bill of sale, a verbally stated value will be accepted by a CSR as long as that value is greater than 50% of the vehicle's average loan value as stated in the NADA "blue book".

Our discovery sample included 170 voided or error-corrected title transactions at an average of \$333.63 per transaction. In the majority of the transactions we reviewed, the entry correcting the void or error was recorded at a lower amount. Because these voids and error corrections were related to title

transactions, we had reason to believe that the privilege tax would have been affected. We requested copies of the title applications and supporting documentation associated with the voided or error-corrected transactions. After our review of the records, we met with DMV personnel to establish the reasons for any change in the amount of privilege tax charged. In some cases they could provide a rationale for the change while in other instances no reason was apparent. Our review of the records indicated that several title applications appear to have been altered by individuals unknown. Title applications, as well as, other transactions are entered into the cash remittance systems in the regional offices. The paperwork supporting the transactions processed in the regional offices is sent to the Charleston Headquarters of the DMV to be entered into the IRMA mainframe database. During our discussions with DMV personnel regarding the altered applications, we noted that there doesn't appear to be a supervisory approval and direct follow-up process in either the Martinsburg Regional Office or the Charleston Headquarters of the DMV to examine altered title applications. Furthermore, we noted that transactions processed through the cash remittance system in the regional offices are not reconciled with the IRMA database transactions processed in the Charleston Headquarters of the DMV.

- 1) The first deficiency noted in the preceding section relates to the assessment of privilege tax. During our review of the internal control structure, we discovered several title applications involving sales between individuals where changes had been made to the sales price. As stated above, these applications were altered by individuals unknown. We believe that an environment exists that could

permit an individual to process an altered title application without question. The Division's Dealer Services section will, for the purpose of a sales verification, contact purchasers to confirm dealer assertions. It appears that a similar system of supervisory approval and direct follow-up applied to sales transactions between individuals should be developed to confirm the validity of all title document alterations. Direct follow-ups should be conducted by Division personnel independent of the title transaction. The submission of a notarized bill of sale would be an additional independent verification of the sales price claimed on the title application and assignment of title.

Agency's Response

When a bill of sale is notarized, the notary is attesting to the signatures on the bill of sale. The conditions of the sale and the odometer information are not being attested to with the notarized bill of sale. The Division requires the certification of the sale price and odometer information on the back of the title. The policies for market value are based on section 17A-3-4.

If the vehicle is new, the actual purchase price or consideration to the purchaser thereof is the value of the vehicle. If the vehicle is used, the present market value at the time of transfer or purchase is the value thereof for the purposes of this section.

The Division currently accepts the sale price from dealers, as it is submitted to the Division as evidence of value or market value. If the vehicle is less than two years old, the Division takes the greater NADA average loan value or the purchase price as evidence of value or market value. On vehicles more than two years old, the Division accepts the stated value if it is greater than 50% of the vehicle's average loan value per the NADA book. If the purchase price is below half of the NADA average loan value, a notarized Bill of Sale is required.

In most cases, the Division accepts the prices which are certified by the seller and buyer on the back of the title as evidence of market value. Since the Division is not an informed party to these transactions, it is difficult for the Division to ascertain market value. The Division policy tries to protect the State from below market value transactions. In these cases, the Division requires a notarized bill of sale before processing the title. The Division is aware that there is a window for people to evade taxes by offering a sale price less than the price the actual item sold for. The Division requires a certification of the sale price and odometer information by both the buyer and seller on the back of the title.

The Division processed 651,181 titles in fiscal year 1996. A review function for questionable titles is in place, where the Division's management responds to questions from Customer Service Representatives (CSR) and the general public. Management relies on the CSR's to bring questionable title transactions to their attention. Management has strengthened the internal control structure over voids and error corrects by requiring the following additional procedures.

The receipts that would normally be given to the customer for voids and error corrects are to be signed by the CSR. Management is required to write a brief narrative on the back of the Cashier Report for each error correct or void. The signed receipts must be attached to the Cashier Report. These requirements are in addition to existing procedures that include: having the authority and being independent of the transaction before a void or error correct is approved and having the person approving the void or error correct initial the Division's copy of the cash register tape.

- 2) The second deficiency deals with a lack of segregation of duties. Although the lead customer service representative at the Martinsburg Regional Office was authorized to approve voids and error corrections, it is our understanding that Division of Motor Vehicles' policy dictates that no individual should be able to approve their own voids and error corrections. A strong internal control structure would dictate that no one person control more than one of the three general types of responsibilities: (1) authority to execute a transaction, a management function; (2) recording a transaction, an accounting function; and (3) custody of assets in the transaction, a custodial function. Based on our observation, it appears that voided and error-corrected transactions are occasionally approved with relatively little question. A strong internal control structure would dictate that the reason behind the void or error correction be determined and all documentation supporting the transaction be reviewed before approval.

Agency's Response

Management agrees with this recommendation. It has been the policy of this Division that only authorized and independent personnel should approve error corrections or voids. The problem with the Martinsburg office was that an authorized individual who was not independent was approving their own voids and error corrects. The Division had a breakdown in management controls where the individual was allowed to perform the duties without questions from on site management.

A new procedure is being drafted, which will require a person to be authorized and independent of the transaction to approve an error correction or void and the person approving the transaction must initial the Division's copy of the cash register tape. Also, the nature of the transaction must be documented on the back of the Cashier's Report at the end of the day and the original receipt must be attached and signed by the Customer Service Representative.

- 3) The third deficiency pertains to inventory adjustments. While reviewing the inventory procedures, we discovered that the daily usage reports may include inventory adjustments as normal usage. According to Martinsburg Regional Office personnel, a daily physical count of inventory items is not usually performed. Every two weeks, the regional offices receive an inventory usage report from Charleston. This printout is a report generated by the Remote Entry Management Information System (REMIS) inventory system and includes all inventory items sold by the Regional Office during the period. If there is a discrepancy, this printout and the DOT-6 "Inventory Usage and Transfers" forms are reviewed to determine if "keypunch" errors occurred during entry. The printout is not, however, automatically reconciled to a physical inventory count when a discrepancy is located. However, physical inventory counts are performed by regional office and other DMV personnel every six to 12 months. Adjustments included in the DOT-6 forms are made to bring the perpetual inventory figures into agreement with the physical count. When an adjustment is recorded as a part of normal inventory usage, it is impossible to trace or track such adjustments.

Agency's Response

The Division agrees with both of these recommendations. Our policy and procedures manual is being updated to include the following information: Any inventory adjustments that are usages are to be recorded on separate DOH-6 forms, with the notation "ADJ with documents attached" at the top of the form or with references listed in the body of the form. The manual will also include that the Regional Office Manager is to review and sign all adjustments being made.

- 4) The fourth deficiency addresses an inventory control consideration. We believe that greater reliability could be placed on the inventory system if the decal serial numbers were required to be entered into the cash remittance system. Decals and standard class A license plates are issued to each CSR by the Regional Office Supervisor or Regional Office Manager. All of the decal types are sequentially numbered and the first and last

number of each allotment, the initials of the employee receiving the decals and the date of the allotment are recorded on the "decal assignment sheet". We did observe some weaknesses regarding the physical safeguarding of these inventory items which are addressed in Item 5 which follows.

Agency's Response

The current version of the cash register system has fields for the entry of serial numbers of all decals and placards. The system will stop on this field and require the operator to press the Enter key before they can continue. If the CSR does not place any alpha/numeric characters in the field, the system will accept blanks as a valid answer. We do not believe that the requirement of alpha/numeric characters would add to the internal control structure. For the decal information to have any value it must be reconciled against the decals assigned to the CSR or validated against an inventory control file per each CSR. During one week, the regional offices processed 2,615 renewals. The Division does not have the staff to reconcile the decal number sold to decals assigned to each CSR. We are studying the approach of having the decal sold verified against an inventory control file which would be loaded on the cash register system and contain inventory information for each CSR.

The Division agrees with the recommendation of an inventory system based on bar coding. We have taken the first steps in that direction with the current programming of the cash register having space for serial number inventory. However, several problems must be solved before the Division's inventory can be bar coded. The Division would have to update or replace current cash register programming and cash register equipment. The Division's vehicle system would have to be modified to allow decal information to be matched with license plate information. Also, all county sheriffs would have to go online, so the system could match decal sales information to license plate information for the Division's vehicle system. The Division believes this to be a costly solution. We are currently studying a change in the cash register system to allow for a control file for inventory. The inventory control file would contain all inventory assigned to a Customer Service Representative (CSR). Before a decal or plate could be sold, it would have to be validated against the inventory control file on the cash register. The validation would occur by means of the decal number or plate number entered by the Customer Service Representative against the assigned inventory file entered by management and assigned to the CSR. The cash register would not process sales for inventory if the inventory could not be validated by the cash register.

- 5) The remaining deficiencies deal with the overall custody and security of assets. The objective of safeguarding assets requires that only authorized personnel have access to assets. Access to assets includes both direct physical and indirect access. An employee has indirect access to assets if he or she can prepare or process documents authorizing the use or the disposition of the assets. A strong internal control structure would dictate that those individuals with direct physical access to assets be restricted to a limited number of employees to ensure accountability. The nature of the asset and its susceptibility to loss should determine the number and caliber of personnel that are authorized to have access to those assets. During our observation of accounting procedures and internal control functions, we noted that there were weaknesses over the physical safeguarding of assets. On occasion, decals were left openly assessable while the customer service representatives stepped away from their registers. Secondly, the lots or "skips" of license plates assigned to the customer service representatives remain unsecured at their registers after hours. In addition, the inventory areas including the storage cabinets remain unlocked most of the time during our field visit. As conditions stand, customer service representatives obtain other inventory items (i.e., scenic license plates, special plates, non-current class A plates, handicap placards, etc.) on an "as needed" basis from the inventory storage areas. The CSR's are not required to have the Regional Office Supervisor or Regional Office Manager obtain these items from the inventory storage areas.

Agency's Response

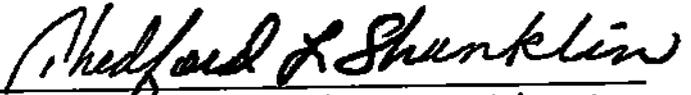
The Regional Office supervisor or manager should issue all "near cash" inventory items to maintain proper control over inventory. All "near cash" items assigned to the Customer Service Representatives will be stored in the inventory room in locked cabinets after hours. The manager and/or supervisor will oversee the issuance of all "near cash" items. The Division is currently reviewing alternate methods to provide the best security and control of "near cash" inventory items.

STATE OF WEST VIRGINIA

OFFICE OF LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended and that the same is a true and correct copy of said report.

Given under my hand this 14th day of September, 1997.


Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the Secretary of the West Virginia Department of Transportation; Commissioner of the Division of Motor Vehicles; Governor; Attorney General; and, State Auditor.