

License Plate and Title Paper Inventory Controls

Audit Report 201314-09

March 31, 2014

Executive Summary

Florida law requires that all vehicles have license plates and decals as proof that citizens have paid required taxes and fees on their vehicles. There are approximately 18 million registered vehicles in the state of Florida that require either a license plate and/or decal each year. Currently, Florida has approximately 300 license plates. These include the standard state of Florida license plate, a variety of more than 120 specialty license plates, government, and various other license plates. Citizens can request a specialty license plate for an additional fee, ranging from \$15 - \$25. Specialty license plates honor the military, special interests, and college alumni. Most of the license plates Florida offers can be personalized for an additional fee.

The process of ordering, producing, printing, and distributing license plates, decals, parking permits, titles, and related items to citizens involves four entities: the Division of Motorist Services, Bureau of Issuance Oversight Inventory Unit; the elected and appointed county tax collector offices from the 67 counties; the Prison Rehabilitative Industries and Diversified Enterprises, Inc. (PRIDE); and Pitney Bowes.

Inventory internal controls are the methods designed by management to safeguard assets and to manage resources. A system of internal controls serves to minimize errors in the accounting records and to deter fraud and theft by members, customers, and vendors. A system of internal controls provides reasonable assurance of:

- Reliable financial and operational reports;
- Efficient and effective operations; and
- Compliance with applicable state and federal laws, regulations, and Department policies.

Our audit identified the following issues related to license plate and title paper inventory controls which require management attention:

- The tax collector year-end license plate inventory audit process is not timely;
- Title Paper is not tracked electronically in FRVIS;
- The Department maintains excessive license plate inventory;
- The Department does not currently know the amount of title paper in tax collector offices, agents and Department sections or regions; and

- The Department has not implemented internal control guidelines for storing and handling title paper.

Functional management generally agreed with the findings and recommendations and has begun corrective action. A follow-up review will be conducted in six months.

Background and Introduction

Florida law requires that all vehicles have license plates and decals as proof that citizens have paid required taxes and fees on their vehicles. There are approximately 18 million registered vehicles in the state of Florida that require either a license plate and/or decal each year. Currently, Florida has approximately 300 types of license plates. These include the standard state of Florida license plate, a variety of 120 specialty license plates, government, and various other license plates. Citizens can request a specialty license plate for an additional fee, ranging from \$15 - \$25. Specialty license plates honor the military, special interests, and college alumni. Most of the license plates Florida offers can be personalized for an additional fee.

The process of ordering, producing, printing, and distributing license plates, decals, parking permits, titles, and related items to citizens involves four entities: the Division of Motorist Services, Bureau of Issuance Oversight Inventory Unit; the elected and appointed county tax collector offices from the 67 counties; the Prison Rehabilitative Industries and Diversified Enterprises, Inc. (PRIDE); and Pitney Bowes.

Division of Motorist Services, Bureau of Issuance Oversight

The Bureau of Issuance Oversight (Bureau) provides consumer protection and public safety through licensing systems that register and title motor vehicles, vessels, manufactured/mobile homes, and issues driver licenses and identification cards. The Bureau issues, renews, transfers, and maintains inventory of license plates and registration decals as well as issues, renews, and cancels disabled parking permits. The Bureau develops policies and procedures and trains county tax collector staff, who serve as the Department's agents, to provide title and registration services. The Bureau performs quality reviews of title documents for accuracy, completeness, and conformance to applicable laws. The Bureau's Inventory Unit is responsible for ensuring an adequate number of license plates exist in the State. This includes placing license plate orders and verifying all items ordered are delivered.

Tax Collectors

Sections 320.03(1) and 328.73, Florida Statutes (F.S.), respectively, provide that county tax collectors are deemed agents of the Department for the purpose of collecting fees, and issuing license plates, registration decals, disabled persons parking permits, and vessel numbers.

Section 320.03 (4)(a), F.S., allows license tag agents to have access to the Department's online computer system for the purpose of processing vehicle title and registration transactions for the Department.

Tax collectors are responsible for maintaining records, reporting sales, accounting for inventory, and dispersing monies collected to the Department in a timely manner. In addition, tax collectors provide the Inventory Unit with the number and types of license plates they require.

Prison Rehabilitative Industries and Diversified Enterprises, Inc. (PRIDE)

PRIDE is a state-authorized, non-profit manufacturing and services corporation. The mission of PRIDE's inmate training is to conduct a comprehensive workplace program that promotes the rehabilitation and employability of PRIDE workers and optimizes the productive performance of the industries to which they are assigned. The Department has a contract with PRIDE to manufacture and distribute license plates. The Department currently pays PRIDE \$1.72 for each regular license plate and \$2.82 for each specialty license plate. The license plates are manufactured at the Union County Correctional Institution by inmates. They currently produce approximately 2 million license plates annually.

Pitney Bowes

In September 2009, Pitney Bowes was selected as the Department's third party vendor to print titles and perform mail distribution services. Pitney Bowes has printed and distributed an average of 3,600,000 titles over the last three years. Observations of the Department's third party title printing vendor provided reasonable assurance of internal controls over the pickup, delivery, storage, and handling of title paper.

Inventory Controls

Inventory internal controls are the methods designed by management to safeguard assets and to manage resources. A system of internal controls serves to minimize errors in the accounting records and to deter fraud and theft by members, customers, and vendors.

A system of internal controls provides reasonable assurance of:

- Reliable financial and operational reports;
- Efficient and effective operations; and
- Compliance with applicable state and federal laws, regulations, and Department policies.

A well designed system of internal controls cannot prevent errors, but can reduce the probability of their occurrence and lack of detection.

Findings and Recommendations

Our audit identified the following issues which require management attention:

Year-End License Plate Inventory Audit Process

Section 320.03(3), F.S., requires each tax collector to keep a full and complete record and account of all validation decals, mobile home decals, or other properties received by him or her from the Department or any other source, and shall make prompt remittance of moneys collected by him or her at such times and in such manner as prescribed by law.

The Division of Administrative Services Bureau of Accounting Procedure BA-6, *Inventories and Year-End Audits*, provides detailed instructions for conducting year-end license plate inventory for tax collectors and EFS dealers.

Per discussion with Bureau of Accounting staff, the tax collector year-end license plate inventory audit process takes approximately one year to complete for all tax collectors. Due to this timeframe, tax collectors are not provided timely information to dispute bills for missing, defaced, or voided license plates, and the Department is not reimbursed timely for missing, defaced, or voided license plates.

For one county reviewed, the inventory audit was received by the Department on October 14, 2011. The Department reviewed the inventory audit and sent a \$34 invoice for unaccounted inventory on August 21, 2012. The bill was paid by the county on August 28, 2012. The Department sent the county's clearance letter on September 7, 2012, 329 days after receiving the county's inventory audit.

Finding 1

The tax collector year-end license plate inventory audit process is not timely.

Recommendation

We **recommend** the Bureau of Accounting develop a plan to review all county year-end license plate audits in a timely manner.

Management Response

The Bureau of Accounting concurs with this finding and has developed a plan to review all county year-end license plate audits within six (6) months of receiving the reports from the Tax Collector Offices. In order to meet this requirement, a part-time position will be hired and other personnel will be reorganized within the Audit and Refund work unit to assist with the audits. A recommendation will also be presented to the Motorist Modernization team to automate the inventory audit and reconciliation process as part of the Modernization Project.

Electronic Tracking of Title Paper

Inventory internal controls are the processes used to protect inventory and ensure that it is maintained at sufficient levels for normal business operations. Inventory internal controls typically include having a system for physically securing, organizing, and tracking inventory.

We reviewed internal controls pertaining to title paper for the Department and our third party title printing vendor. During our review of the Department's title paper controls, we identified the following issues:

- Title paper reported missing or damaged is documented by the Inventory Unit but cannot be systematically voided to ensure accountability;
- The current manual processes used for tracking title paper allowed for inaccurate and missing entries; and
- The Department does not have reasonable assurance of the exact count of title paper maintained by tax collectors or agents.

The current manual system used for tracking title paper does not provide reasonable assurance that title paper is accurately accounted for or tax collectors are not maintaining excessive inventory.

The Bureau of Issuance Oversight provided a Work Request and Prioritization (WRAP) in November 2011 for title paper to be tracked in Florida Realtime Vehicle and Information System (FRVIS). According to Motorist Services and Information Systems Administration personnel, enhancements to the current FRVIS system are not being implemented unless they are Legislative mandates, rule changes, or fee changes. The Department is requesting funding from the Legislature to rewrite FRVIS as part of the Motorist Modernization plan. The Motor Vehicle portion of the rewrite is anticipated to begin in June 2015 with a completion date of 2019-2020.

Finding 2

Title Paper is not tracked electronically in FRVIS.

Recommendation

We **recommend** the Bureau of Issuance Oversight formally communicate to the Office of Motorist Modernization the need to track title paper electronically.

Management Response

The Bureau of Issuance Oversight is working closely with the Office of Motorist Modernization on all phases of the modernization project. When the FRVIS system redesign begins, we will include the electronic tracking of title paper as a requirement. In the meantime, a copy of this audit will be sent as formal communication of this need.

Department License Plate Inventory

Tax collectors' orders to PRIDE must be made in increments determined by the type of plate. Regular state of Florida license plates are ordered in increments of 100 and specialty license plates can be ordered in increments of 10, 25, 50, 75, or 100. PRIDE is allotted 45 days to produce and ship the license plates. If a tax collector needs an order of plates below the allotted increments, or cannot wait 45 days, an order of license plates can be sent from the Department's inventory. The Department's license plate inventory is to be used as an emergency order system.

We obtained a master list of license plates maintained in supply by the Inventory Unit. As of October 30, 2013, the Department had 152,603 license plates in supply. We identified the following issues:

- For 26 specialty license plates, the Inventory Unit maintains 50% more license plates on hand than the number of license plates currently issued throughout the state as of October 31, 2013.

- From October 1, 2012, through September 30, 2013, a total of 263 orders were shipped by the Inventory Unit totaling 26,000 license plates. When orders are sent from PRIDE, the cost of shipping is included in the cost per plate; however, when the license plates are sent from the Inventory Unit, the Department is required to pay for shipping. The majority of orders sent from the Inventory Unit were for 100 or more license plates and would indicate there was not an emergency.
- Currently, the Department has not developed a plan to determine an acceptable level for each type of license plate maintained in supply (i.e. Barry University has approximately 1,300 license plates in supply while Florida State University has approximately 200.)
- The Department is maintaining outdated license plates in supply.

Maintaining a large volume of inventory requires more time and effort to categorize, organize, and transport items, and requires physical space to store the inventory.

Finding 3

The Department maintains excessive license plate inventory.

Recommendations

We **recommend** the Bureau of Issuance Oversight develop a plan to:

- Determine an appropriate volume for license plate inventory to be maintained for emergency purposes;
- Train tax collectors and agents on appropriate ordering protocol;
- Maintain only current license plate inventory; and
- Address excess inventory currently maintained in the Neil Kirkman Building.

Management Response

We concur with the recommendations and will draft an action plan by April 30, 2014.

Title Paper Inventory

Sections 320.03 and 328.73, F.S., authorize county tax collectors to serve as agents of the Department for collecting fees, entering license plate and title information, and issuing license plates, disabled persons parking permits, vessel decals, and titles. Tax collectors are also responsible for maintaining records, reporting sales, accounting for inventory, and dispersing monies collected in a timely manner to the Department.

During our review, we observed Inventory Unit personnel using manual processes to determine tax collector title paper use and inventory counts. The Department does not currently know the amount of title paper in tax collector offices, agents, Department sections, or regions and has not trained tax collector offices and agents on appropriate ordering protocol for title paper.

Finding 4

The Department does not currently know the amount of title paper in tax collector offices, agents, and Department sections or regions.

Recommendation

We **recommend** the Inventory Unit conduct an inventory of title paper maintained by tax collectors, agents, and Department sections or regions.

Management Response

We agree that our current method for tracking title paper inventory is not automated and is not a true inventory management system. However, the Department began an inventory accountability process for title paper in 2012. At that time, the Department physically pulled back all title paper stock in the field.

This allowed the Department to conduct an inventory of current stock and restart its distribution methods by disseminating a six month supply of title paper to each agency. This process has helped to ensure all agencies had an adequate amount of title paper on hand while not allowing too much paper at any one location.

The Bureau will conduct another inventory similar to what occurred in 2012 to confirm if our current processes are working and the Bureau will continue to work toward ensuring that title paper is accounted for as best as can be done manually. However, a fully automated tracking system will not be functional for several years until FRVIS is modernized.

Title Paper Internal Control Guidelines

Inventory internal controls are the processes used to protect inventory and ensure that it is maintained at sufficient levels for normal business operations. Inventory internal controls typically include having a system for physically securing, organizing, and tracking inventory.

We reviewed inventory internal controls pertaining to title paper for the Department and our third party title printing vendor. During our review of Department title paper controls, we noted inconsistent storage and handling of title paper (One section maintained title paper in a safe overnight and only puts minimal amounts of title paper in the printer, as needed. Another section maintained title paper in a closet in the supervisor's office; however, title paper was left in a printer at all times in an office with open doors throughout the day). Department personnel indicated each piece of blank title paper has a street value ranging between \$1,500 and \$3,000. Motorist Services personnel indicated the Department has not provided internal control guidelines to tax collector offices which would provide reasonable assurance of the physical control of title paper.

Finding 5

The Department has not implemented internal control guidelines for storing and handling title paper.

Recommendations

We **recommend** the Bureau of Issuance Oversight implement title paper guidelines for the Department and tax collector offices and agents pertaining to storing and handling title paper.

We also **recommend** the Bureau of Motorist Services Support include a review of tax collector office title paper storage and handling in their Quality Assurance site visit program.

Management Response

The action plan addressed in Finding 3 above will also include our actions on implementing title paper guidelines for the Department and tax collector offices and agents pertaining to storing and handling title paper.

The Bureau of Motorist Service Support will be developing an on-site Quality Assurance Review for Tax Collector offices. A review of title paper storage and handling procedures will be included in this Quality Assurance review.

Purpose, Scope, and Methodology

The purpose of this audit was to evaluate whether the Department's inventory control framework for license plate and title paper inventory are adequate and that internal controls are in place to reduce inventory-related risk.

The scope of this audit included the ordering and inventory process from October 1, 2012 – September 30, 2013.

The methodology included:

- Reviewing Florida Statutes related to license plate and title paper inventory;
- Reviewing Department policies, procedures, and processes;
- Reviewing the Motor Vehicle Operations Manual;
- Interviewing appropriate Department personnel;
- Observing internal controls for the Department's third party title printing vendor and the Department's Inventory Unit; and
- Reviewing other applicable documentation.



Distribution, Statement of Accordance, and Project Team

Distribution

Julie L. Jones, Executive Director
Boyd Walden, Director of Motorist Services

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Kevin Bailey, Chief Administrative Officer for the Division of Motorist Services
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Deana Metcalf, Director of Administrative Services
Marilyn Tabanelli, Chief of Accounting
Melinda M. Miguel, Chief Inspector General
David W. Martin, Auditor General

Statement of Accordance

Section 20.055, Florida Statutes, requires the Florida Department of Highway Safety and Motor Vehicles' Inspector General to review, evaluate, and report on policies, plans, procedures, accounting, financial, and other operations of the Department and to recommend improvements. This audit engagement was conducted in accordance with applicable *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and *Principles and Standards for Offices of Inspector General* published by the Association of Inspectors General.

Project Team

Engagement conducted by:
Doane Rohr, Auditor

Under the supervision of:
David Ulewicz, Audit Director

Approved by:


Julie M. Leftheris, Inspector General

ATTACHMENTS - Management Responses



Julie L. Jones
Executive Director

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MEMORANDUM

DATE: March 20, 2014
TO: David Ulewicz, Audit Director
FROM: Deana Metcalf, Director of Administrative Services
SUBJECT: Management Response to the License Plate and Title Paper Inventory Controls Audit (201314-09)

The following is our response to the findings and recommendations presented in the report.

Finding 1

The tax collector year-end license plate inventory audit process is not timely.

Recommendation

We **recommend** the Bureau of Accounting develop a plan to review all county year-end license plate audits in a timely manner.

Division Response

The Bureau of Accounting concurs with this finding and has developed a plan to review all county year-end license plate audits within six (6) months of receiving the reports from the Tax Collector Offices. In order to meet this requirement, a part-time position will be hired and other personnel will be reorganized within the Audit and Refund work unit to assist with the audits. A recommendation will also be presented to the Motorist Modernization team to automate the inventory audit and reconciliation process as part of the Modernization Project.

Cc: Julie M. Leftheris, Inspector General
Marilyn Tabanelli, Chief of Accounting

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Julie L. Jones
Executive Director

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MEMORANDUM

DATE: March 20, 2014
TO: David Ulewicz, Audit Director
FROM: Boyd Walden, Director of Motorist Services
SUBJECT: Management Response to the License Plate and Title Paper Inventory Controls Audit (201314-09)

The following is our response to the findings and recommendations presented in the report.

Finding 2

Title Paper is not tracked electronically in FRVIS.

Recommendation

We recommend the Bureau of Issuance Oversight formally communicate to the Office of Motorist Modernization the need to track title paper electronically.

Division Response

The Bureau of Issuance Oversight is working closely with the Office of Motorist Modernization on all phases of the modernization project. When the FRVIS system redesign begins, we will include the electronic tracking of title paper as a requirement. In the meantime, a copy of this audit will be sent as formal communication of this need.

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Finding 3

The Department maintains excessive license plate inventory.

Recommendations

We recommend the Bureau of Issuance Oversight develop a plan to:

- Determine an appropriate volume for license plate inventory to be maintained for emergency purposes;
- Train tax collectors and agents on appropriate ordering protocol;
- Maintain only current license plate inventory; and
- Address excess inventory currently maintained in the Neil Kirkman Building.

Division Response

We concur with the recommendations and will draft an action plan by April 30, 2014.

Finding 4

The Department does not currently know the amount of title paper in tax collector offices, agents, and Department sections or regions.

Recommendation

We recommend the Inventory Unit conduct an inventory of title paper maintained by tax collectors, agents, and Department sections or regions.

Division Response

We agree that our current method for tracking title paper inventory is not automated and is not a true inventory management system. However, the Department began an inventory accountability process for title paper in 2012. At that time, the Department physically pulled back all title paper stock in the field.

This allowed the Department to conduct an inventory of current stock and restart its distribution methods by disseminating a six month supply of title paper to each agency. This process has helped to ensure all agencies had an adequate amount of title paper on hand while not allowing too much paper at any one location.

The bureau will conduct another inventory similar to what occurred in 2012 to confirm if our current processes are working and the bureau will continue to work toward ensuring that title paper is accounted for as best as can be done manually. However, a fully automated tracking system will not be functional for several years until FRVIS is modernized.

Finding 5

The Department has not implemented internal control guidelines for storing and handling title paper.

Recommendations

We **recommend** the Bureau of Issuance Oversight implement title paper guidelines for the Department and tax collector offices and agents pertaining to storing and handling title paper.

We also **recommend** the Bureau of Motorist Services Support include a review of tax collector office title paper storage and handling in their Quality Assurance site visit program.

Division Response

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The Bureau of Motorist Service Support will be developing an on-site Quality Assurance Review for Tax Collector offices. A review of title paper storage and handling procedures will be included in this Quality Assurance review.

Cc: Julie M. Leftheris, Inspector General