



STATE OF COLORADO
OFFICE OF THE STATE AUDITOR

MEMORANDUM

To: Legislative Audit Committee

From: Joanne Hill, State Auditor

Date: February 13, 2004

RE: Colorado State Titling and Registration System Follow Up

The Office of the State Auditor conducted a follow-up review of the Colorado State Titling and Registration System (CSTARS) Performance Audit, released in August 2002. We requested information from the Department of Revenue regarding the implementation status of the audit recommendations. We reviewed the follow-up responses and corresponding documentation. Attached is a summary of the implementation status of the 14 recommendations made in the audit report. Overall, 3 recommendations have been fully implemented, 10 recommendations have been partially implemented or are in progress, and 1 recommendation has not been implemented.

The Department has made significant progress in addressing problems with fees charged by its state office and the CSTARS system. In response to the 2002 Performance audit of the CSTARS System, the Department of Revenue has documented all fees charged by the System, and the statutory authority for each fee. The Department continues to have some outstanding questions as to the statutory authority for some of the fees, and will continue to work with internal and external legal counsel to clarify authority and intent for each fee. In addition, the Department worked to pass legislation during the 2003 Legislative Session to resolve a number of issues related to fees charged for manufactured home title transactions. These issues were addressed in House Bill 03-1342, signed by the Governor in May 2003. The Department is in the process of developing procedures for testing the System to ensure that fees charged are accurate and within statutory authority. These procedures will be implemented with the new system in August 2005.

The Department continues to work to implement appropriate cash controls in its state office. According to the Department's follow up response to Recommendation No. 5, the Cash and Document Processing (CDP) Section and Motor Vehicle Business Group (MVBG) do not believe they have enough FTE at this time to implement additional cash controls, including logging and reconciling cash and checks received on a daily basis. The audit made a number of recommendations for streamlining or eliminating processes at the State office, which would free up FTE, and eliminate this problem. However, the Department has not completed its process of analyzing state office functions and streamlining processes to free up the FTE. Regardless, the audit noted the high risk associated with a lack of cash controls, including logging checks received and transaction forms separately and reconciling these documents daily, reconciling deposits and transactions daily, eliminating state office clerk's ability to accept cash, and formalizing procedures for changing fees on transaction forms. As a result, this recommendation has not been implemented.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 1: The Department of Revenue should (1) extend the testwork in our sample to determine if additional errors exist, and (2) reprogram the CSTARS system to ensure that fees for titling and registration transactions are collected in accordance with statute. Additionally, the Department needs to determine the feasibility of refunding overcollections to consumers.

**Department of Revenue Response:
Agree— December 1, 2002**

Agency Update

The Department has reviewed its statutory authority for all fees collected and disbursed in Titles and Registrations by both the state office and county motor vehicle offices. Staff have developed a chart to track these fees and are continuing to research the correct disbursement of these fees. The Department will correct any programming errors identified in the CSTARS system. House Bill 03-1342 was signed by the Governor in May 2003. This bill corrected a number of the problems identified during the CSTARS audit by aligning manufactured home title fees with vehicle title fees. At this time, the Department believes refunding citizens for possible overpayments is unwise for the following reasons:

- Many fees collected were not captured in the CSTARS system as they were collected using hard copy receipts. Therefore, accurate data identifying who was overcharged and by how much does not exist.
- It is not cost effective to process refunds for small amounts of overpayment. Possible overpayments ranged from \$1.70 to \$6.70.
- A fee increase would be required to allow the Department to refund citizens.

Implementation Status: In Progress.

State Auditor Evaluation

Partially Implemented. The Department has made a great deal of progress in documenting the statutory fees and disbursement of those fees. The Department has documented these efforts in a fee chart. However, the Department still has a number of unanswered legal questions related to how fees should be disbursed. We believe that the Department needs to work closely with internal legal council and the Attorney General's Office to answer its remaining questions related to fee collection and disbursement.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 2: The Department of Revenue should ensure that the transaction forms at the state office charge fees in accordance with statute. Additionally, the Department needs to determine the feasibility of refunding overcollections to consumers.

**Department of Revenue Response:
Agree— July 1, 2003**

Agency Update

The Department has taken action to address transactions at the state office, including title histories, sample plates, special mobile machinery exempt plates, mobile home redemptions, collector ownership tabs, special mobile machinery dealer plates, and conversion of personalized plates. Specifically, House Bill 03-1342 gave the Department authority to allow special mobile machinery (SMM) dealers and transporters authority to transport SMM vehicles that are for sale, and to allow them to use SMM dealer plates for transporting these vehicles. The Department has also changed system programming to align fees with statute.

Implementation Status: In Progress.

State Auditor Evaluation

In Progress. As discussed in Recommendation 1, the Department has worked to document all fees charged by the CSTARS system and the statutory authority for those fees. While the Department has corrected a number of problems identified by the audit and by its work in documenting fees charged by the CSTARS system, it is still awaiting final review and approval of its fee chart. Upon final approval, the Department will begin making IT programming changes necessary to correct problematic fees identified.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 3: The Department of Revenue should reprogram the CSTARS system and change manual forms to ensure that revenue collections are distributed in accordance with statute. Additionally, the Department should determine the feasibility of repaying HUTF for misallocations.

**Department of Revenue Response:
Agree— December 1, 2002**

Agency Update

The Department has made a number of changes to the CSTARS system, including changing the system to properly distribute bulk transfer of records fees, and generic style plate fees, and corrected the fees charged for inquiries on manufactured housing titles. Additionally, House Bill, 03-1342, signed by the Governor in May 2003, gave the Department authority to deposit title fees collected by the state office into the CSTARS fund. The Department intends to reimburse the Highway Users Tax Fund (HUTF) for the fees that were incorrectly distributed to the CSTARS fund. If necessary, the Department will seek legislation in 2006 to extend the \$2.30 title fee to reimburse HUTF.

Implementation Status: Partially Implemented

State Auditor Evaluation

Partially Implemented. The Department has made a number of changes necessary in the CSTARS system or in the statutes to correct the problems identified during the audit. The Department plans to seek legislation in the 2004 Legislative Session to extend the \$2.30 additional title fee identified in Section 42-6-137(1)(b)(III), C.R.S., for one year to enable the Department to reimburse the HUTF fund for monies misallocated. Currently the \$2.30 fee is set to expire in September 2006. The legislation would extend the fee until September 2007.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 4: The Department of Revenue should develop policies and procedures for thoroughly testing CSTARS and state office transactions on an ongoing basis.

**Department of Revenue Response:
Agree— January 1, 2006**

Agency Update

The Department has developed a working group to look at all processes on an ongoing basis. As the restructuring of the state titles and registration office occurs, this task will become a responsibility of the Audit and Compliance unit that will be developed. Testing of the system will be implemented in concert with the new system. The Department believes the new system will be implemented in August 2005.

Implementation Status: In Progress

State Auditor Evaluation

In Progress. The Department plans to implement procedures for testing the CSTARS system in an ongoing way when the new CSTARS system is up and running. According to Department staff, the new system should be running by August 2005.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 5: The Department of Revenue should take immediate action to implement appropriate controls over cash processes at the state office, including, but not limited to, (1) logging checks received and transaction forms separately and reconciling these documents daily, (2) reconciling deposits and transactions daily, (3) eliminating state office clerks' ability to accept cash, and (4) formalizing procedures for changing fees on transaction forms.

Department of Revenue Response:
Agree— October 1, 2002

Agency Update

Motor Vehicle Business Group (MVBG) staff have been in communication with Cash and Document Processing (CDP) staff regarding cash processing at the state office. The CDP section does not believe it has adequate FTE to take over the current practice of MVBG staff from handling cash, checks or money orders that come in via mail. Further, neither the CDP or MVBG sections believe they currently have adequate FTE to log and reconcile all cash and checks daily. The Department has decided to perform an in-depth business analysis to identify alternatives for document and cash processing that balance compliance with the Department's Cash Receipts Policy, the audit's recommendations, and the cost of implementing each alternative. The Department expects that the new CSTARs system will provide additional functionality to allow further strengthening of cash controls as recommended by the auditors.

Implementation Status: In Progress

State Auditor Evaluation

Not Implemented. Cash controls are critical to the State's ability to protect assets and prevent against fraud and abuse. In Recommendations 8, 9, and 10, the audit provided the Department with a number of suggestions for streamlining and improving state office operations. One of the suggestions was to eliminate multiple handling of forms by the clerks and cashiers. We found that many forms are handled six times before the revenue from the transaction is posted to COFRS. By streamlining this process, and eliminating a separate cashiering function, the Department could save both customer service time, and gain the FTE it believes it needs to perform necessary cash and transaction reconciliation processes.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 6: The Department of Revenue should ensure adequate financial controls over revenues and expenditures by (1) conducting reasonableness tests on a regular basis, (2) reconciling transactions to deposits to the accounting system, and (3) ensuring adequate reviews over all transactions.

**Department of Revenue Response:
Agree— October 1, 2002**

Agency Update

System limitations prevent the Department from fully resolving these issues. As far as revenue controls are concerned, the Department is currently in discussions with Information Technology (IT) staff to determine what additional edits and reports can be put in place. The Department is looking closely at the design of the new CSTARS system to assure that these controls are considered in the new system and will be available upon implementation of the new system. Roles and responsibilities for the implementation of this recommendation must be discussed and defined before the system is implemented. The Department is also in the process of developing an accounting position within the Titles section. This individual's primary responsibility will be to monitor the funds submitted by the county motor vehicle offices and research any discrepancies identified. The Department plans to fill this position early in the upcoming fiscal year.

Implementation Status: In Progress.

State Auditor Evaluation

In Progress. The Department is working towards implementation of this recommendation. However, optimistically, this will not be fully implemented until the new CSTARS system is in place. As discussed previously, the new CSTARS system is estimated for completion in August 2005.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 7: The Department of Revenue should retain CSTARs transaction data for three years. Retaining data for a number of fiscal year periods would enable the Department to identify trends and outliers, predict transaction volumes, and plan for future changes in titling and registration functions.

Department of Revenue Response:
Agree— Implemented

Agency Update

As of November 2002, IT staff at the Department were able to recover 3 years worth of transactional data for the CSTARs system. The Department is in the process of developing a customized record management plan in accordance with Senate Bill 03-33. The Department has not performed regular, analytical reviews of its CSTARs transactional data.

Implementation Status: Implemented

State Auditor Evaluation

Implemented. The Department is now maintaining data in accordance with State Archives requirements. The Department should incorporate procedures to use the data it has to identify trends and outliers, predict transaction volumes, and plan for future changes in titling and registration functions.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 8: The Department of Revenue should streamline inefficient titling and registration processes. For example, the Department should consider either (a) eliminating the state office as a customer service office for titling and registration and requiring counties to process these transactions, or (b) streamlining the state office's transaction processes.

Department of Revenue Response:
Agree— January 1, 2006

Agency Update

As of June 2003, the Department had performed an analysis of the services provided and revenue distributed to the CSTARs account by the processes performed by state office (Rotunda) staff. The analysis revealed that eliminating state office titling functions would have a negative impact of approximately \$435,000 per year (net of cost savings) to the revenue base of the CSTARs fund. The Department has established a working group to review all processes and forms utilized by the Titles and Registration staff. This working group will continue to meet and discuss streamlining the current processes. The goal of the working group is to become more cost effective and to utilize Titles and Registration staff more efficiently and effectively to provide more valuable title and registration processes statewide.

Implementation Status: In Progress.

State Auditor Evaluation

In Progress. The audit documented that the state office (Rotunda) took longer to process title documents, and charged more for some transactions (such as one-day dealer titles). Additionally, transactions at the state office are handled 6 times prior to completion, resulting in consumers sometimes waiting in multiple lines, and greater risk of transaction error or misappropriation of funds. The Department should continue to review its internal processing of transactions to determine whether state office functions can be streamlined or eliminated.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 9: The Department of Revenue should evaluate all program services provided at the state office to determine if there continues to be a need to operate a centralized office for each program and, also, if services provided in the state office could be provided by existing local offices.

Department of Revenue Response:
Agree— January 1, 2006

Agency Update	State Auditor Evaluation
<p>The Department has recently evaluated all services offered in the Rotunda and has determined that some of the workstations may be utilized more effectively. Of the 24 existing stations, six will be utilized as a driver’s license renewal site beginning July 1, 2003. The remaining 18 will be reallocated to the service entities currently located in the rotunda which include Driver Control, Titles, Registrations, Dealer Licensing, and Motor Carrier Services.</p> <p>Implementation Status: In Progress.</p>	<p>In Progress.</p>

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 10: The Department of Revenue should: (a) eliminate the State's current role in issuing titles for the counties, and (b) determine as part of the comprehensive cost study suggested in Recommendation No. 13, if additional reimbursement to the counties for processing titles is warranted.

Department of Revenue Response:
Agree— January 1, 2006

Agency Update

While this recommendation cannot be fully implemented until the new CSTARs system is in place, MVBG and IT staff have worked diligently to achieve the computer programming needed to allow the county motor vehicle offices to print all titles at the county offices. The county motor vehicle offices can now print duplicate and Colorado to Colorado titles without liens, MSO's without liens, remove the lien on a duplicate, and print titles. The additional support needed to perform these functions will be discussed within the working group and recommendations will be made.

Implementation Status: In Progress.

State Auditor Evaluation

In Progress. The necessary programming to allow county motor vehicle offices to print all but three types of titles has been completed. According to Department staff, these changes have resulted in the county offices processing more titles on their own. Specifically, the Department reported that in March 2003, the counties processed about 32,000 batches of titles, and in August 2003 after the programming changes were complete, counties processed about 43,000 batches of titles. The State remains involved in processing 3 types of title documents that require additional research and resources such as complex training, microfilm retrieval and additional system changes. These 3 title transactions include: 1) titles issued as the result of the bond process, 2) titles needing correction, and 3) titles issued with a bill of sale or court order as the supporting documentation. The Department states that the counties can process these types of titles when resources become available to make microfilmed title records accessible to all counties and to make additional programming changes.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 11: The Department of Revenue should strengthen its controls over indirect cost allocations by performing scheduled reviews of supporting assumptions. These reviews should be performed by the Accounting and Financial Services section staff and by the program managers generating the distribution assumptions to ensure that documentation and resulting allocations are accurate.

Department of Revenue Response:
Agree— October 1, 2002

Agency Update

State Auditor Evaluation

The Accounting and Financial Services Section had implemented their part of this recommendation by October 2002. MVBG has also verified the accuracy of the indirect cost allocations for 2003. The Department plans to continue review of the accuracy of indirect cost allocations on a quarterly basis and make adjustments as warranted.

Implemented.

Implementation Status: Implemented.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 12: The Department of Revenue should identify cost-effective e-government solutions for titling and registration and ensure compliance with legislative intent as expressed in Senate Bill 00-015. Any solutions implemented prior to the completion of the CSTARs replacement should be compatible with the new system.

Department of Revenue Response:
Agree— January 1, 2006

Agency Update

Much research and discussion has surrounded the possibility of electronic titling within the existing system. MVBG, IT, and county representatives have identified a possible process to allow the counties to be able to process a title application with a lien, without printing the title. The county could then electronically transmit verification to the lienholder that their lien has been filed and the title record has been approved. Electronic titling is scheduled as part of Phase II of the current contract for the new system. Phase II of the system, if the accelerated plan is approved by the JBC, will be complete by August 31, 2005. By statute, the Department must provide a mechanism for electronic titling by 2006. As the new system is developed this requirement will become a priority in order to comply with law.

Implementation Status: In Progress.

State Auditor Evaluation

In Progress. In addition to electronic titling, the Department is working on an initiative to accelerate the registration renewal and credit card payment functionality from Phase II into Phase I of the new CSTARs system project, meaning that, if successful, it would be implemented in August 2005. This would allow citizens to renew their motor vehicle registration via the Web and use credit cards for payment.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 13: The Department of Revenue should ensure that business processes and system changes (including those changes discussed in this report) are considered before developing the new CSTARS system. This should include identifying the costs of performing titling and registration in Colorado, the methods of paying for those costs, the fee structure, the specific modes of service provision, and the accountability for these functions.

Department of Revenue Response:
Agree— December 1, 2002, and ongoing

Agency Update

The Department is considering the problems cited in the audit with respect to the titling and registration functions in Colorado, including the fragmented nature of the function and funding streams, the future of e-government functions, and analyzing and tracking transaction information. The Department is considering all of these issues as it develops the new CSTARS system. The Business Validation Sessions (BVS - formerly JAD sessions), are addressing these issues as well as many others that have been identified since this process began. IT staff, MVBG staff, county motor vehicle staff, and members of the CSTARS advisory committee attend the BVS. Funding source alternatives are not being considered at this time however, the Department will examine this issue again after the new CSTARS system is implemented. The new CSTARS system will provide transactional cost allocation data that is not currently available. The Department does prepare a monthly analysis report for the CSTARS Advisory Committee. This report identifies the current status of the fund as well as the projected condition of the fund.

Implementation Status: In Progress.

State Auditor Evaluation

In Progress. According to the Department, the current CSTARS fund analysis indicates that the fund will be solvent until FY 2006-07, with the current revenue structure.

**COLORADO STATE TITLING AND REGISTRATION SYSTEM
JULY 2002**

No. 14: The Department of Revenue should work with the General Assembly to propose legislation clarifying the fees and distribution of fees in statute for manufactured home titles. Additionally, the CSTARS enabling statute should be changed to contain references to all statutory funding sources.

Department of Revenue Response:
Agree— Fiscal Year 2003 Legislative Session

Agency Update	State Auditor Evaluation
<p>MVBG worked to pass House Bill 03-1342 which clarified the manufactured home title fees and completes the CSTARS enabling statute.</p> <p>Implementation Status: Implemented.</p>	<p>Implemented.</p>