

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**THE DEPARTMENT OF MOTOR VEHICLES
CAN IMPROVE ITS ADMINISTRATION OF THE
INTERNATIONAL REGISTRATION PLAN**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-833

THE DEPARTMENT OF MOTOR VEHICLES
CAN IMPROVE ITS ADMINISTRATION OF THE
INTERNATIONAL REGISTRATION PLAN

AUGUST 1989



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

Kurt R. Sjoberg
Acting Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

August 9, 1989

F-833

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2148
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the Department of Motor Vehicle's administration of the International Registration Plan. According to the report, the department needs to revise how it selects carriers for audit, and it needs to increase the number of audits that it performs to fulfill its audit responsibilities under the International Registration Plan. In addition, to ensure that California receives the correct registration fees, the department should work with other members of the International Registration Plan to standardize carrier information, and it should use that information to verify the registration fees it receives.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kurt Sjoberg".

KURT R. SJOBERG
Acting Auditor General

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	S-1
INTRODUCTION	1
AUDIT RESULTS	
I THE DEPARTMENT OF MOTOR VEHICLES IS NOT COMPLYING WITH ALL THE AUDIT REQUIREMENTS OF THE INTERNATIONAL REGISTRATION PLAN	7
CONCLUSION	15
RECOMMENDATIONS	16
II THE DEPARTMENT OF MOTOR VEHICLES HAS ONLY LIMITED ASSURANCE THAT OTHER JURISDICTIONS SEND THE CORRECT REGISTRATION FEES TO CALIFORNIA	17
CONCLUSION	22
RECOMMENDATIONS	23
APPENDIX	
A DESCRIPTION OF THE METHODOLOGY USED TO DETERMINE THE DEPARTMENT OF MOTOR VEHICLES' BENEFIT-COST RATIO FOR INTERNATIONAL REGISTRATION PLAN AUDITS	25
RESPONSE TO THE OFFICE OF THE AUDITOR GENERAL'S REPORT	
BUSINESS, TRANSPORTATION AND HOUSING AGENCY Department of Motor Vehicles	27

SUMMARY

RESULTS IN BRIEF

The International Registration Plan (IRP) is an agreement among 40 jurisdictions to provide greater flexibility of commerce among the participating jurisdictions. The California Department of Motor Vehicles (department) is responsible for administering the IRP and for meeting California's IRP responsibilities. During our review of the department's administration of the IRP, we found the following:

- The department is not selecting for audit every three years a representative or sufficient number of interstate commercial carriers based in California;
- The department's auditors spent 57 percent of their time performing audits, resulting in a benefit-cost ratio of 1.94:1. We could not determine how a different level of audit activity would affect the department's benefit-cost ratio; and
- The department has limited assurance that it receives correct registration fees from other IRP jurisdictions because other jurisdictions do not always comply with registration and audit requirements and because the department does not always use all the available registration and audit information to assure itself that it is receiving all registration fees owed to it.

BACKGROUND

The department collects registration fees from interstate commercial carriers (carriers) that are registered in California under the IRP. The IRP is a registration reciprocity agreement among states of the United States and a Canadian province and is administered centrally by the American Association of Motor Vehicle

Administrators. Under the agreement, carriers pay registration fees on the basis of miles each fleet operates in various jurisdictions. Currently, 40 jurisdictions participate in the IRP agreement. The IRP allows a carrier conducting business in more than one jurisdiction to register in and pay fees to its base jurisdiction. The base jurisdiction then allocates the fees to other jurisdictions based on the proportion of the carrier's travel in those jurisdictions. The fees each carrier pays are based on self-assessment, and under the IRP, each jurisdiction is required, every three years, to audit 25 percent of the carriers that operate out of its jurisdiction.

PRINCIPAL FINDINGS

The Department of Motor Vehicles Is Not Complying With All the Audit Requirements of the International Registration Plan

The department does not give all California-based carriers equal consideration, as required by the IRP agreement, when it selects the carriers it plans to audit. Rather, the department selects auditees on the basis of its analysis of the carriers' registration history. Moreover, it audits only 7 percent of the California-based carriers every three years instead of 25 percent as required by the agreement. In our comparison of the department's audit activities with the activities of other jurisdictions, we found that the department's activities are not consistent with those of the other IRP jurisdictions. For example, 18 of the 29 other IRP jurisdictions that responded to our questionnaire use random selection, which gives each carrier equal consideration, as at least one of the criteria for selecting their audits. Further, 5 of the 29 jurisdictions audit at least 25 percent of their carriers every three years. As a result of using its own criteria to select audits and not auditing 25 percent of its carriers every three years, the department is not assured that a sufficient

or representative number of carriers are maintaining proper records and submitting the correct registration fees.

The Department of Motor Vehicles Has Only
Limited Assurance That Other Base Jurisdictions
Send the Correct Registration Fees to California

California and the other member jurisdictions of the IRP have limited assurance that they receive the correct registration fees from base jurisdictions. Specifically, some of the registration and audit information that the base jurisdictions provide is not always complete, not all of the audits are selected to give all carriers equal consideration, and not all base jurisdictions perform audits. Furthermore, the department does not always use the registration or audit information that it does receive from other base jurisdictions to verify that registration fees were correctly allocated.

RECOMMENDATIONS

To comply with the audit requirements of the International Registration Plan, the Department of Motor Vehicles should give each carrier equal consideration in the audit selection process and audit 25 percent of the California-based carriers every three years, as required.

To provide some assurance that the other 39 jurisdictions are remitting the appropriate registration fees to California, the department should take the following actions:

- Recommend that the member jurisdictions work through the American Association of Motor Vehicle Administrators to standardize the format for transmittal letters and supporting schedules and to develop procedures ensuring that base jurisdictions comply with the IRP's documentation and auditing requirements; and
- Use the information that other base jurisdictions provide to verify that the other base jurisdictions are correctly computing the fees owed to California.

AGENCY COMMENTS

The Department of Motor Vehicles concurs with the Office of the Auditor General's recommendations and is taking action to implement these recommendations.

INTRODUCTION

The International Registration Plan (IRP) is an agreement among 40 jurisdictions, comprising California, 38 other states, and one Canadian province. Established in September 1973 by nine states, the IRP was designed to allow interstate commercial carriers to operate with greater flexibility in any of the member jurisdictions. The IRP is administered centrally by the American Association of Motor Vehicle Administrators, which serves as an information clearinghouse and has no disciplinary or decision-making authority. The member jurisdictions must vote on and agree to all changes to the IRP and all new members of the plan.

The IRP allows an interstate commercial carrier (carrier) to register vehicles in and pay registration fees to a base jurisdiction rather than registering in and paying fees to each of the 40 individual jurisdictions. A carrier is a business that operates in two or more IRP jurisdictions and provides vehicles for hire to transport people or property. A jurisdiction must meet three requirements to be declared a carrier's base jurisdiction: the carrier must have an established place of business in the jurisdiction, the carrier's fleet must travel in the jurisdiction, and the carrier must maintain or make available the fleet's operating records in the jurisdiction. Base jurisdictions will issue a base plate, the vehicle's license plate, to every vehicle in each carrier's fleet.

The IRP registration process is generally the same in every jurisdiction. Each year the carriers must file vehicle and mileage schedules with their base jurisdiction. On the vehicle schedule, the carriers must list vehicle descriptions, weights, and costs for each vehicle in their fleets. On the mileage schedule, the carriers must list the jurisdictions where they intend to travel and the miles they expect to travel in each of those jurisdictions.

Based on the carrier information included on the vehicle and mileage schedules, the base jurisdiction calculates each vehicle's operating percentage by mile and applies that percentage to the full registration fees owed to the jurisdictions where the vehicle is expected to travel. For example, if a fleet is expected to travel 7.5 percent of its miles in California and if the fleet's full registration fee owed to California is \$705, the apportioned fee owed to California would be calculated at \$53 ($.075 \times \705) and would be collected by the base jurisdiction.

The base jurisdiction also summarizes the amounts collected from each fleet for other IRP jurisdictions. It then sends a transmittal letter, indicating the registration fees collected on behalf of the jurisdiction, a summary of the supporting vehicle and mileage schedules for each carrier, and a check to each IRP jurisdiction for which the base jurisdiction collected fees. Because each jurisdiction may determine its own registration year and any carrier may add or delete vehicles from its fleet at any time during

the year, there is no standard timeframe over which the jurisdictions are required to send their transmittal letters and supporting schedules. The department sends transmittal letters and supporting documents weekly; some of the other jurisdictions send transmittals weekly, some biweekly, and some monthly.

In addition to collecting registration fees, the base jurisdiction issues identification plates and registration cards to the carrier. Moreover, to ensure that the carriers are paying the correct fees and that such fees are allocated correctly, the IRP requires each base jurisdiction to audit, every three years, at least 25 percent of the carriers that are located within its jurisdiction.

California, which has belonged to the IRP since January 1985, administers the IRP program for California-based carriers through the Department of Motor Vehicles (department). In the 1987-88 fiscal year, the department collected approximately \$74 million in California IRP registration fees from IRP carriers operating in California. In the 1988-89 fiscal year, the department collected \$414,750 from additional registration fees assessed as a result of IRP audits that it conducted.

SCOPE AND METHODOLOGY

The purpose of our review was to determine whether the department is complying with the IRP agreement; to determine the current benefit-cost ratio of performing audits of the IRP carriers

based in California; to determine whether a different level of audit activity would affect registration fee revenues; and to determine whether the other IRP jurisdictions are remitting the correct registration fees to California.

To determine whether the department is complying with the IRP agreement, we reviewed the department's audit selection methodology and audit activity and compared them with the IRP requirements. We also compared the types of carriers selected for audit as a result of the department's methodology with the types of carriers registered in California.

To determine the department's benefit-cost ratio for performing audits, we compared the amount of additional registration fees assessed by the department as a result of IRP audits with the cost of performing the audits. We then reviewed the time that auditors spent actually performing audits versus the time spent on other activities.

To determine whether other jurisdictions are remitting the appropriate fees to California, we reviewed and recalculated registration fees received from other jurisdictions. We also reviewed California's procedures to assure itself that other jurisdictions properly compute California registration fees by reviewing the audit

reports that other IRP jurisdictions sent to California and by determining whether California was properly following up on the results of those audits.

To compare California's activity to that of the other IRP jurisdictions, we sent a questionnaire to 37 of the other jurisdictions asking for information about how they administer the IRP program. We did not send the questionnaire to the two other jurisdictions because they entered the IRP in 1989. Some of the questions we asked concerned the jurisdiction's audit selection policies, the amounts of additional assessments and related audit costs, and the jurisdiction's procedures to ensure its receipt of correct registration fees from other jurisdictions.

AUDIT RESULTS

I

THE DEPARTMENT OF MOTOR VEHICLES IS NOT COMPLYING WITH ALL THE AUDIT REQUIREMENTS OF THE INTERNATIONAL REGISTRATION PLAN

The Department of Motor Vehicles (department) is not complying with all the audit requirements of the International Registration Plan (IRP) for auditing interstate commercial carriers (carriers) based in California. Specifically, the department does not give equal consideration to all carriers when it selects audits, and it does not audit 25 percent of the carriers every three years, as required by the IRP. Instead, the department uses its own criteria to select carriers for audit and has audited only about 7 percent of the carriers in the past three years. Moreover, the department's audit activities are not consistent with those of the other IRP jurisdictions. In response to our questionnaire, 18 of 29 (62 percent) other IRP jurisdictions indicated that they use random selection, which gives each carrier equal consideration, as at least one of their criteria to select audits. Five of 29 (17 percent) IRP jurisdictions indicated that they audit at least 25 percent of their carriers every three years. As a result of using its own criteria to select audits and of not auditing 25 percent of its carriers every three years, the department is not auditing a sufficient or representative number of carriers to fulfill its responsibilities under the IRP.

EQUAL CONSIDERATION NOT
GIVEN IN AUDIT SELECTION

The IRP requires that base jurisdictions give each carrier equal consideration in the audit selection process. However, instead of giving equal consideration to all California-based carriers, the department uses its own criteria to select carriers to audit. These criteria include significant changes in a carrier's California mileage percentages between registration years and unusually high ratios of a carrier's trailers to its power (cab) units. By not giving all carriers equal consideration in the audit selection process, the department is not fulfilling its responsibilities under the IRP, and the carriers that it selects are not representative of the overall population of carriers registered in California. Consequently, the department is not assured that a representative number of carriers are maintaining proper records and submitting the correct registration fees.

The following table presents the distribution of the carriers that the department selected to audit for the 1988 calendar year. The table illustrates that the percentage of carriers selected for audit is not representative of those registered as IRP carriers. For example, although accounts A through D carriers comprise only 38 percent of the IRP registrations for the 1988 calendar year, such carriers accounted for 91 percent of the carriers that the department selected to audit for 1988. Conversely, although carriers in accounts E through H

comprise 61 percent of the IRP registrations for the 1988 calendar year, the department selected only 7 percent to audit for 1988. The A through D accounts represent IRP carriers that first registered in California in 1984. The E through H accounts are IRP carriers that first registered in California after 1984. Also, while T accounts, which designate IRP trailer accounts (no power units registered as part of the fleet), were not selected for audit, P and R accounts, which designate non-IRP carriers, were selected for audit.

TABLE
 DISTRIBUTION OF REGISTRANTS AND
 SAMPLE ITEMS BY ACCOUNT TYPE
1988 CALENDAR YEAR

<u>Account Type</u>	<u>Registrations</u>		<u>Audit Pool</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
A - D	1,362	38%	162	91%
E - H	2,174	61	13	7
T	48	1	0	0
P - R	2	0	1	1
Other	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>
Total	<u>3,586</u>	<u>100%</u>	<u>177</u>	<u>100%</u>

Although the carriers selected for audit in 1988 are not representative of the carriers registered in California, the carriers selected for audit in 1989 are more representative. For example, the percentage of carriers selected for audit in 1989 in accounts A through

D is 51 percent versus 38 percent of the carriers registered in 1988. The carriers selected for audit in 1989 may be more representative, in part, because the department replaced its manual selection process with an automated one. An automated system can more efficiently apply the criteria to all carriers in the population.

The department uses its own criteria to select carriers for audit because it believes that carriers meeting this criteria have the highest potential for inaccurate records. It also believes that such audits generally provide a higher ratio of revenue in relation to audit costs. We cannot guarantee that audits selected by giving each carrier equal consideration will result in a higher ratio of revenue to audit costs; however, the purpose of these audits is not necessarily to increase the jurisdiction's revenues. Rather, the IRP requires audits primarily so that carriers will comply with established rules and regulations governing apportioned registration. These audits are also designed to ensure that the carriers pay the proper amount of apportioned fees. Moreover, the department's criteria does not appear to identify a significant number of audits that result in a high return of revenue to California. In analyzing the 87 completed audits from the list of audits the department selected to conduct in the 1988 calendar year, we determined that 49 of the 87 completed audits (56 percent), all of which met the department's selection criteria, resulted in an assessment of less than \$2,200 per audit, which is less than the department's average cost to perform an IRP audit. Of these 49 audits, 11 audits resulted in either no assessment or a refund.

Furthermore, only 22 audits (25 percent) resulted in assessments greater than \$4,600 per audit, the average additional assessment of the 87 audits.

Not only does the department's audit selection methodology not comply with the IRP, its methodology is not consistent with that of other IRP jurisdictions. In responding to our questionnaire, 6 of the 22 other IRP jurisdictions that perform IRP audits indicated that they use only random selection, which gives each carrier equal consideration, and another 12 use random selection as at least one of the criteria for selecting their IRP audits.

The Department Is Not Auditing
the Required Number of Carriers
Based in California

In addition to equal consideration of all carriers in the audit selection process, the IRP requires that a base jurisdiction audit at least 25 percent of the carriers based in that jurisdiction every three years. However, the department is not auditing 25 percent of the California-based carriers every three years. From July 1986 through March 1989, about 3,300 different carrier accounts, on average, were registered in California. To meet the 25 percent audit requirement, the department would have had to audit approximately 840 carriers during the three-year period. However, the department has completed only 218 audits, or 7 percent of its average registrations.

In contrast, 5 of 29 jurisdictions that responded to our questionnaire had audited at least 25 percent of their carriers over the past three years. Another 10 of the 29 jurisdictions had audited between 7 and 25 percent of their carriers over the past three years.

The department has not complied with the audit requirement to audit 25 percent of its carriers every three years, in part, because the IRP audit unit has not been fully staffed. During the 1988-89 fiscal year, the IRP audit unit was authorized to have 12 auditors. However, for the first three months of fiscal year 1988-89, the unit had only 8 auditors. The unit hired 4 auditors, who began work in October 1988, bringing the unit up to full strength. This staff level lasted only one month. In November 1988, one auditor left, and in February 1989, one auditor was promoted. This again caused the unit to be understaffed by 2 auditors. The unit is now in the process of hiring additional auditors to bring the unit up to full strength.

Another reason the department has not audited 25 percent of its carriers every three years is that the IRP auditors spent a limited number of their available hours performing audits. The department did not have records for us to determine how its IRP auditors spent their time before April 1988. However, we determined that for the first nine months of fiscal year 1988-89, the auditors spent 57 percent of their available hours performing audits, 9 percent on training, and the

remainder on leave and special projects. These special projects include automating the audit workpapers and automating the audit selection process.

As described in the appendix, we calculated that, auditing 57 percent of the time, the department assessed carriers approximately \$415,000 in additional registration fees at a cost of approximately \$214,000. This resulted in a benefit-cost ratio of 1.94:1 for the department's IRP audits: for every dollar the department spent auditing, it received \$1.94 in additional assessments. The IRP does not require jurisdictions to maintain a certain benefit-cost ratio for the audits that they perform, and most of the other IRP jurisdictions do not maintain the information needed to calculate the benefit-cost ratio related to their IRP audits; consequently, we were unable to compare the department's benefit-cost ratio with the ratios of most of the other jurisdictions. However, in responding to our questionnaire, two IRP jurisdictions reported benefit-cost ratios of 1.22:1 and 1.75:1. Further, in contrast to the department's positive benefit-cost ratio, another five IRP jurisdictions reported that their audit assessments have not exceeded their costs to perform IRP audits.

The Department Plans To Complete More Audits

In the future, the department expects to increase the time staff spend auditing and, thus, the total number of audits it completes. To accomplish this, the audit manager of the IRP audit unit

does not plan to assign special projects to the IRP staff in the near future, freeing staff to devote more of their available hours to audits. In addition, the department is in the process of hiring more audit staff to bring the unit up to full strength.

The automated workpapers, developed as one of the IRP unit's special projects, should also help to increase the number of audits performed. According to the manager of the Interstate Audits Unit, these automated workpapers will be available to the IRP audit staff in January 1990 and will reduce the time staff spend preparing audit schedules, calculating fee changes, and preparing the detail schedules that accompany the audit reports. This should make the auditors more efficient, allowing them to complete more audits during the year.

In another effort to complete more audits, the department is reducing the scope of its IRP audits. The IRP allows jurisdictions to determine whether an audit will cover one, two, or three registration years. In the past, the department has chosen to audit three years of registration fees, but, in the future, the unit plans to audit only one year unless the carrier's records show significant problems. This change in audit scope is consistent with work performed by other IRP jurisdictions. For instance, two of the five jurisdictions that have audited more than 25 percent of their carriers audit only one year of each carrier's records.

By implementing these changes, the department hopes to increase the number of IRP audits that it performs. However, these changes do not guarantee that the audits the department performs will result in additional revenue because the variables involved in selecting and performing audits are such that there is no correlation between audit effort and additional assessments. Moreover, because we cannot quantify the effect additional IRP audits will have on the department's revenue, we cannot predict what the department's future benefit-cost ratios will be.

CONCLUSION

The Department of Motor Vehicles is not complying with the element of the International Registration Plan agreement that requires that each carrier be given equal consideration in the audit selection process. Instead, the department has used its own criteria, based on a carrier's registration history, to select the carriers that the department will audit. In addition, the department is not complying with the IRP requirement to audit 25 percent of the California-based carriers every three years. It has not complied with this requirement because its IRP audit unit has not been fully staffed and some of its audit staff have worked on special projects rather than conducting audits. However, while these projects were not audits, they should help the unit conduct more efficient IRP audits in the future.

RECOMMENDATIONS

To comply with the audit requirements of the International Registration Plan, the Department of Motor Vehicles should take the following actions:

- Give each carrier equal consideration in the audit selection process; and

- Increase the time spent on IRP audits and audit 25 percent of the California-based carriers every three years.

II

THE DEPARTMENT OF MOTOR VEHICLES HAS ONLY LIMITED ASSURANCE THAT OTHER JURISDICTIONS SEND THE CORRECT REGISTRATION FEES TO CALIFORNIA

Because not all base jurisdictions are complying with the registration and audit requirements of the International Registration Plan (IRP), California and the 39 other IRP jurisdictions have limited assurance that they are receiving the correct registration fees from the other member jurisdictions. Moreover, the Department of Motor Vehicles (department) further limits California's assurance that it is receiving the correct registration fees because the department is not using all the information available to it. Specifically, base jurisdictions do not always provide other jurisdictions with complete or correct information to allow the other jurisdictions to verify that registration fees were correctly calculated and prorated. In addition, some of the base jurisdictions either do not give all the interstate commercial carriers (carriers) equal consideration when they select carriers to audit, do not audit enough carriers, or do not audit carriers at all. Thus, carriers operating in California but based in other jurisdictions might not be audited. Finally, the department does not always use registration or audit information that it does receive from other jurisdictions to verify that registration fees were correctly allocated.

IRP JURISDICTIONS DO NOT ALWAYS
PROVIDE ENOUGH INFORMATION

As described in the introduction, the IRP agreement requires the base jurisdictions participating in the IRP to register carriers operating out of their jurisdictions and to collect registration fees from the carriers on behalf of all the jurisdictions in which the carriers will operate. At the time of registration and then annually, carriers provide the base jurisdiction with a mileage schedule showing how many miles they intend to travel in each IRP jurisdiction and a description of all the vehicles in their fleets. Base jurisdictions use the vehicle information to calculate the total registration fees owed and use the mileage information to allocate the registration fees to the participating jurisdictions. Also, the IRP agreement requires the base jurisdictions to provide other jurisdictions with documentation to substantiate the application for registration and the allocation of fees. This documentation consists of a summary of the supporting schedules for each carrier and a transmittal letter showing the allocation of the fees collected by the base jurisdiction on behalf of the other jurisdictions.

To verify that carriers have paid the correct registration fees, the IRP requires base jurisdictions to audit carriers. The base jurisdictions are to select carriers from those displaying the jurisdiction's base plate, and the selected carriers may include carriers that operate in and pay a portion of their registration fees

to California. The base jurisdiction will then provide a copy of the audit results summarizing the additional assessments or refunds apportionable to each jurisdiction affected by the audit. The individual jurisdictions are responsible for billing carriers for additional registration fees owed or sending carriers refunds based on the audit results.

Although the IRP requirements summarized above are intended to provide some assurance to jurisdictions that they are receiving their appropriate share of registration fees, California has only limited assurance of this. This assurance is limited because the information that the department receives from other IRP jurisdictions does not always provide sufficient detail for it to recalculate the registration fees and, thus, to verify that it is receiving its proper share of the carrier's registration fees. For example, we reviewed the registration information provided to California on one transmittal from each of the 38 other IRP jurisdictions that have sent transmittals, and we found that 11 of the transmittals did not include either the carrier's total mileage or the carrier's California mileage. Consequently, we could not verify the carrier's California operating percentage. Also, 4 of these 11 transmittals and an additional 2 transmittals did not include purchase costs and dates for the registered vehicles. Without this information, we could not verify the fees for weight, vehicle license, or registration owed to California by these 13 jurisdictions.

The lack of information on the transmittals is a problem that pervades the IRP program. In responding to our questionnaire, 11 of 29 IRP jurisdictions reported that they periodically review transmittals to verify the calculation of percentages and fees. One jurisdiction indicated, however, that this verification is increasingly difficult because of a lack of information. Four jurisdictions noted that they rely on the other jurisdictions to watch out for their best interests. Six jurisdictions indicated that they do nothing to verify the transmittals sent by other jurisdictions. Although the IRP requires base jurisdictions to provide the other jurisdictions with enough documentation to verify a carrier's application for apportioned registration, the IRP does not list the specific information that the base jurisdictions must provide. IRP jurisdictions calculate their registration fees differently, some requiring descriptive detail that other jurisdictions do not need. Without a standardized transmittal, not all base jurisdictions provide the other jurisdictions with enough information to recalculate the fees owed to them.

California also has limited assurance that the registration fees sent to it are correct because some of the other IRP jurisdictions do not fulfill their audit responsibilities under the IRP. Specifically, some of the other jurisdictions use their own criteria to select carriers to audit, do not audit at least 25 percent of their carriers every three years, or do not audit their carriers at all. For example, in response to our questionnaire, 4 of 29 jurisdictions provided data showing that, when selecting carriers to audit, they do

not give equal consideration to all carriers registered in their jurisdictions. Moreover, 14 of the 29 jurisdictions provided data showing that they have not audited at least 25 percent of their carriers in the last three years, and another 7 jurisdictions reported that, for a variety of reasons, they do not perform any IRP audits at all. When base jurisdictions do not audit their carriers as required, they do not verify that the information they used to allocate registration fees to the other jurisdictions is correct. Thus, the department cannot always be assured that its allocations from other base jurisdictions are accurate.

Another reason that California has limited assurance is that, even though the summary audit report form is standard, not all of the audit reports are complete. For example, we reviewed the 286 audit summaries that California received from other jurisdictions between July 1, 1988, and April 13, 1989, and found that 116 (40 percent) did not provide all the information that the department needed to calculate the changes in the California fees as a result of the audits. Consequently, the department had to request additional information from the other jurisdictions to determine whether California should bill the carriers for additional registration fees owed to it or send the carriers refunds.

Even when the department receives complete registration and audit information from the other jurisdictions, the department does not always use such information to verify the fee computations. For

example, 25 of the 39 transmittal letters that we reviewed had enough information to allow the department to determine whether registration fees were computed and allocated correctly; however, the department did not use such information for this purpose. Because the department did not verify the transmittals, it did not identify that one jurisdiction had incorrectly used the 1989 California fee structure to compute the fees owed by carriers who were adding vehicles to their fleets for the 1988 calendar year. According to the manager of the department's Interstate Operating Authority, her staff only verify the fee computations and operating percentages when a new jurisdiction joins the IRP and do not continue to verify transmittals received from that jurisdiction. However, this initial verification does not ensure that the department will detect changes to fees or errors in calculations.

CONCLUSION

California and the other member jurisdictions of the International Registration Plan have limited assurance that they receive accurate registration fees from base jurisdictions. The base jurisdictions do not always send complete information that allows the other jurisdictions to substantiate and verify the carriers' registration fees and the changes required to a carrier's registration fees as a result of audit. In addition, not all of the base jurisdictions are fulfilling their audit responsibilities under the IRP. Moreover, the Department of Motor Vehicles

does not always use the information that it receives from the other jurisdictions to verify that it is receiving all amounts owed to it.

RECOMMENDATIONS

To provide some assurance that the other 39 jurisdictions belonging to the International Registration Plan are remitting the appropriate registration fees to California, the Department of Motor Vehicles should take the following actions:

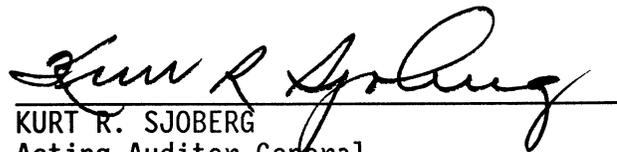
- Recommend that the member jurisdictions work through the American Association of Motor Vehicle Administrators to standardize the format for transmittal letters and supporting schedules and to require that all base jurisdictions follow that format;

- Recommend that the member jurisdictions work through the American Association of Motor Vehicle Administrators to develop procedures to ensure that base jurisdictions comply with the IRP's documentation and auditing requirements; and

- Use the information that other base jurisdictions provide to verify that the other base jurisdictions are correctly computing the fees owed to California.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


KURT R. SJOBERG
Acting Auditor General

Date: August 7, 1989

Staff: Enrique G. Farias, CPA
Nancy C. Woodward, CPA
Mary E. Bensorosky, CPA

A DESCRIPTION OF THE METHODOLOGY USED TO DETERMINE
THE DEPARTMENT OF MOTOR VEHICLES' BENEFIT-COST
RATIO FOR INTERNATIONAL REGISTRATION PLAN AUDITS

A benefit-cost ratio is a measure of how efficiently an entity uses its resources. To measure the Department of Motor Vehicles' (department) benefit portion of the benefit-cost ratio for performing International Registration Plan (IRP) audits, we determined the additional amount of registration fees IRP carriers based in California paid as a result of the department's audits. Although the audits generally result in the interstate commercial carriers (carriers) paying additional registration fees, sometimes the carriers receive refunds for excess registration fees paid. To fairly reflect the actual additional registration fees, we reduced the amount of additional assessments by the amount of refunds the department sent to the carriers. For the nine-month period ended March 31, 1989, the net additional assessments, and thus, the department's benefits, totaled approximately \$415,000.

To calculate the cost portion of the ratio, we first determined the total costs incurred by the department's IRP auditors. These costs, which, for the same nine-month period, totaled approximately \$360,000 for the IRP audits operations, include approximately \$291,000 in salaries and benefits, approximately \$51,000 in earned vacation leave, and approximately \$18,000 in travel. We determined that, for the first nine months of fiscal year 1988-89, the auditors spent 57 percent of their time performing audits.¹ Therefore, we used only 57 percent of the auditor's salaries, benefits, and earned vacation leave costs as a portion of direct IRP audit costs. In addition, we included all of the auditor's travel costs as direct audit costs. As a result, we calculated direct IRP audit costs to be approximately \$214,000.

Based on the calculations described above, we determined that, for the nine-month period ended March 31, 1989, the department's benefit-cost ratio for performing audits 57 percent of the time was 1.94:1. That is, for every \$1.94 in additional registration fees, the department incurred \$1.00 in audit costs.

¹For calculation purposes, we used the actual percentage of 57.21.

1120 N Street
Sacramento
95814

(916) 445-1331

Alcoholic Beverage Control
Banking
Corporations
California Highway Patrol
California Housing Finance
Agency
Commerce

GEORGE DEUKMEJIAN
GOVERNOR OF
CALIFORNIA



Insurance
Housing and Community
Development
Motor Vehicles
Real Estate
Savings and Loan
Transportation
Teale Data Center
Office of Traffic Safety
Office of Small Business
Advocate

BUSINESS, TRANSPORTATION AND HOUSING AGENCY

July 24, 1989

Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Subject: Report on DMV's International
Registration Plan - F-833

I am forwarding the Department of Motor Vehicles'
comments on your report concerning the International
Registration Plan.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "John K. Geoghegan".

JOHN K. GEOGHEGAN
Secretary

Enclosure

DEPARTMENT OF MOTOR VEHICLES
RESPONSE TO AUDITOR GENERAL'S REPORT
INTERNATIONAL REGISTRATION PLAN

FINDING I : THE DEPARTMENT OF MOTOR VEHICLES IS NOT COMPLYING WITH ALL THE AUDIT REQUIREMENTS OF THE INTERNATIONAL REGISTRATION PLAN.

RECOMMENDATIONS:

To comply with the audit requirements of the International Registration Plan, the Department of Motor Vehicles should take the following action:

- Give each carrier equal consideration in the audit selection process; and
- Increase the time spent on IRP audits and increase the staff's audit efficiency to meet the requirement of auditing 25 percent of the California based carriers every three years.

RESPONSE:

- We concur with the recommendations. The department is revising the audit program to comply with the International Registration Plan which will align California with the audit programs in most other IRP states. More specifically, we are developing a random audit selection process to determine the carriers to be audited, and are preparing a budget change request for additional audit staff to carry out the required number of audits under the plan.

FINDING II: THE DEPARTMENT OF MOTOR VEHICLES HAS ONLY LIMITED ASSURANCE THAT OTHER JURISDICTIONS SEND THE CORRECT REGISTRATION FEES TO CALIFORNIA.

RECOMMENDATIONS:

To provide some assurance that the other 39 jurisdictions belonging to the International Registration Plan are remitting the appropriate registration fees to California, the Department of Motor Vehicles should take the following actions:

- Recommend that the member jurisdictions work through the American Association of Motor Vehicle Administrators to standardize the format for transmittal letters and supporting schedules and to require that all base jurisdictions follow that format;

- Recommend that the member jurisdictions work through the American Association of Motor Vehicle Administrators to develop procedures to ensure that base jurisdictions comply with the IRP's documentation and auditing requirements; and
- use the information that other base jurisdictions provide to verify that the other base jurisdictions are correctly computing the fees owed to California.

RESPONSE:

We concur with the recommendations. The department will pursue efforts to standardize the IRP audit program with the other participating states and ensure compliance with auditing requirements. In addition, we will be conducting a study with the goal of establishing a means of assuring the validity and correctness of the computation of other base jurisdictions of fees owed to California.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps