

**DEPARTMENT OF HIGHWAY SAFETY
AND MOTOR VEHICLES**

**REGULATION OF MOTOR VEHICLE DEALERS
AND PROCUREMENT AND EXPENDITURES**

Operational Audit



EXECUTIVE DIRECTOR OF THE DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES

Pursuant to Section 20.24, Florida Statutes, the head of the Department of Highway Safety and Motor Vehicles is the Governor and Cabinet, which consists of the Governor, Attorney General, Chief Financial Officer, and Commissioner of Agriculture. Pursuant to Section 20.05(1)(g), Florida Statutes, the Governor and Cabinet is responsible for appointing the Executive Director of the Department of Highway Safety and Motor Vehicles. The Executive Directors who served during the period of our audit were:

Julie L. Jones	From October 2009
Electra Theodorides-Bustle	Through September 2009

The audit team leaders were Linda Gardner, CPA, and Suzanne Sullenberger, CPA, and the audit was supervised by Haesun Baek, CPA. Please address inquiries regarding this report to David R. Vick, CPA, Audit Manager, by e-mail at davidvick@aud.state.fl.us or by telephone at (850) 487-4494.

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DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES

Regulation of Motor Vehicle Dealers and Procurement and Expenditures

SUMMARY

This operational audit of the Department of Highway Safety and Motor Vehicles (Department) focused on the licensing and regulating of motor vehicle dealers by the Division of Motor Vehicles (Division) and Department procurement of and expenditures for commodities and contractual services. Our audit also included a follow-up on the audit findings included in report No. 2009-089. Our audit disclosed the following:

LICENSING AND REGULATION OF MOTOR VEHICLE DEALERS

Finding No. 1: The Division had not established consistent policies and procedures among the ten Regions within the Bureau of Field Operations (Bureau).

Finding No. 2: The Bureau had not established policies and procedures to require all compliance examiners to provide, with respect to the motor vehicle dealers under their oversight, periodic disclosures addressing actual and potential conflicts of interest.

Finding No. 3: The Bureau did not always perform annual management reviews for all Regions.

Finding No. 4: The Division did not always adequately complete records inspection reports or timely follow up on failed records inspections.

Finding No. 5: The Division did not adequately plan or perform records inspections of motor vehicle dealers. Further, the Division's rationale for selecting dealers for records inspections was not adequately documented.

Finding No. 6: The Department did not timely suspend motor vehicle dealer licenses for the dealer's failure to maintain the required surety bond or garage liability insurance.

Finding No. 7: The Department did not always take timely and effective administrative actions against motor vehicle dealers with frequent and severe violations.

PROCUREMENT AND EXPENDITURES

Finding No. 8: The Department lacked internal controls to reasonably ensure the legal review and approval for all contractual services contracts of \$50,000 or more.

Finding No. 9: The Department did not always take available discounts when processing invoices for payment.

Finding No. 10: The Department did not always verify fees charged on invoices for bank services.

ADDITIONAL MATTERS

Finding No. 11: The Department did not ensure that purchasing cards were timely canceled upon a cardholder's separation from the Department.

Finding No. 12: The Department did not timely remove Florida Accounting Information Resource Subsystem (FLAIR) user access for terminated employees.

Finding No. 13: The Department did not provide ongoing security awareness training to its employees.

PRIOR AUDIT FOLLOW-UP

The Department had taken corrective action for the findings included in audit report No. 2009-089.

BACKGROUND

The Department, among other duties, provides the following:¹

- Highway safety and enforcement programs through traffic law enforcement, safety education, and the traffic crash investigation process.
- The driver license program.
- Title and registration services for motor vehicle and vessel owners and consumer protection through various licensure and inspection programs.
- Comprehensive records of driver and vehicle status and traffic crashes.

The Department is composed of three operational areas: the Florida Highway Patrol, the Division of Driver Licenses, and the Division of Motor Vehicles,² and two administrative areas: the Division of Administrative Services and Information Systems Administration. The Department has offices located throughout the State.

FINDINGS AND RECOMMENDATIONS

Licensing and Regulation of Motor Vehicle Dealers

The Division of Motor Vehicles (Division) within the Department is responsible for licensing and regulating motor vehicle dealers.³ The Division is to ensure that all requirements of State law and Department rule are met before a motor vehicle dealer license is issued.⁴

A motor vehicle dealer is defined in Florida law as a person engaged in the business of buying, selling, or dealing in motor vehicles or offering or displaying motor vehicles for sale at wholesale or retail, or who may service and repair motor vehicles pursuant to an agreement between a motor vehicle dealer and a manufacturer, factory branch, distributor, or importer. Any person who buys, sells, or deals in three or more motor vehicles in any 12-month period or who offers or displays for sale three or more motor vehicles in any 12-month period is considered to be engaged in such business.⁵

The Division issues five classes of licenses to motor vehicle dealers:

- A franchised motor vehicle dealer license allows the dealer to sell new motor vehicles pursuant to an agreement with a manufacturer. This license also permits the licensee to sell used motor vehicles.⁶
- An independent motor vehicle dealer license is for a person dealing in used motor vehicles only. This license permits the licensee to transact business at retail or wholesale.
- A wholesale motor vehicle dealer licensee may only buy from, sell to, and deal at wholesale with other licensed dealers.

¹ Chapters 316, 319 through 322, and 327 through 328, Florida Statutes.

² Section 20.24, Florida Statutes.

³ Section 320.27, Florida Statutes, and Department Rule 15C-1.007, Florida Administrative Code.

⁴ The requirements, provided by Section 320.27, Florida Statutes, and the Department Rules, Chapter 15C-7, Florida Administrative Code, include approved location, payment of license fees, surety bond or letter of credit, proof of ownership or lease of business location, fingerprint cards for background checks, Federal employer's identification number, Florida sales tax number, garage or general liability insurance, and proof of required training.

⁵ Section 320.27(1)(c), Florida Statutes.

⁶ A franchised motor vehicle dealer can also obtain a service facility dealer license that allows the operation of a service and repair facility at a location other than that of the licensed dealership. Pursuant to Section 320.642(6)(d), Florida Statutes, a service facility dealer license does not permit the selling or leasing of new motor vehicles at the service facility.

- A motor vehicle auction dealer license allows the dealer to sell, on behalf of licensed dealers, to the highest bidder. This license does not permit the dealer to sell at retail.
- A salvage motor vehicle dealer licensee is allowed to engage in the business of acquiring salvaged or wrecked motor vehicles for the purpose of reselling the vehicles and their parts. If the dealer rebuilds salvaged or wrecked vehicles, the title must be reassigned to an independent dealer for retail sale.

The Bureau of Field Operations (Bureau) within the Division is responsible for the regulation of the dealer industry, including motor vehicle, mobile home, and recreational vehicle dealers. The Bureau consisted of the Headquarters with 17 authorized positions, and ten Regions (shown by EXHIBIT A) with 89 authorized positions for compliance examiners, 12 for Field Supervisors (2 Field Supervisors for Regions VI and X), 10 for Regional Administrators, 26 for senior clerks, and 6 other positions as of July 2009. As of December 31, 2009, there were 5 vacant compliance examiner positions, one vacant Field Supervisor position, and 2 vacant senior clerk positions in the Regions.

The licensing period is from January 1 through December 31 for franchised motor vehicle dealers and from May 1 through April 30 for independent, wholesale, auction, and salvage motor vehicle dealers. The application fee for an original motor vehicle dealer license is \$300 and the fee for a license renewal is \$75.⁷ According to Department records, the Bureau's expenditures for the dealer regulatory program totaled \$2,901,477, \$2,874,818, and \$3,420,300, while its revenues from dealer license fees totaled \$1,525,248, \$1,541,518, and \$1,433,554 during the 2007-08, 2008-09, and 2009-10 fiscal years, respectively. Dealer license application and renewals fee revenues were deposited into the General Revenue Fund while the dealer regulatory program expenditures were appropriated and paid from the Highway Safety Operating Trust Fund.

To issue and account for motor vehicle registrations and titles, the Department maintains the Florida Real-Time Vehicle Information System (FRVIS). Local tax collectors, tag agent offices, and Department personnel throughout the State register and title motor vehicles by transmitting vehicle information to the State's motor vehicle databases through FRVIS. FRVIS also provides real-time access to the State's motor vehicle databases to obtain customer, vehicle, vessel, handicap parking, and history information. FRVIS customers include motor vehicle owners and operators, dealers, auctioneers, financial institutions, insurance companies, law enforcement, other State and local agencies, and business users of the System. Using FRVIS, Department staff can access information on motor vehicle dealers through dealer license, consumer complaint, and various history inquiries. There are also 29 different Statewide dealer license reports available in FRVIS, including those by licensee name, type, and county.

Retail motor vehicle dealers may, on behalf of customers, file tag, title, and registration applications in three ways as follows:

- The most common method to process title and registration transactions is for dealers to complete applications and send the paperwork to their county tax collector. Pursuant to Florida law, the dealer issues a temporary vehicle tag to the consumer at the time of sale.⁸ The Electronic Temporary Registration (ETR) System is available for dealers to report the issuance of temporary license plates online through FRVIS and produce a temporary license plate on demand. The tax collector processes the paperwork and transmits vehicle information to the State's motor vehicle databases through FRVIS.⁹ The customer generally receives the permanent tag and registration within 30 days.
- Dealers may use private tag agencies in eight counties (Broward, Hillsborough, Jefferson, Leon, Miami-Dade, Pinellas, Polk, and Volusia) to process title and registration transactions. These tag agencies are authorized by the county tax collectors to process title and registration applications, to transmit vehicle information to the State's motor vehicle databases, and collect and submit related fees through FRVIS. The private tag agencies

⁷ Sections 320.27(3) and 320.27(4), Florida Statutes.

⁸ Section 320.131, Florida Statutes.

⁹ Section 320.03, Florida Statutes.

charge fees for their services, which are passed on to consumers. These fees vary by dealership and county. Dealers that use these services issue a temporary tag to the customer, who generally receives the permanent tag and registration within 30 days.

- Dealers in Florida may be authorized to process titles and registrations using the Electronic Filing System (EFS).¹⁰ EFS is a computerized system that enables dealers to process vehicle titles and registrations during sales transactions and submit vehicle information to the State's motor vehicle databases through FRVIS. These dealers may then issue permanent tags rather than temporary tags. Customers pay an additional fee to the dealer for this service.

Florida law requires the Department to maintain electronic records of all complaints filed against licensed motor vehicle dealers.¹¹ All complaints and enforcement actions taken against each licensee are to be entered into FRVIS. The complainant is to be advised of the disposition of the complaint within 10 days of such action.

The Division established written procedures to handle consumer complaints filed against motor vehicle dealers.¹² The Bureau accepts complaints against a licensee or unlicensed person or entity by any individual, firm, business, or a compliance examiner. Upon a review of the complaint, Bureau staff is to determine if it is within the jurisdiction of the Department. If the Department does not have jurisdiction, a letter is to be sent to the complainant explaining that the Department does not have jurisdiction with a referral, when possible, to an appropriate agency that may be able to assist the complainant.

Upon determining that the Department has jurisdiction, a complaint folder is to be created to track complaints. Each complaint must identify the affected dealer. Unless a complaint can be resolved by telephone or conference with the dealer or complainant, or both, the complaint is to be investigated by a compliance examiner. Each Regional Administrator or designee is to review pending cases on a weekly basis to ensure that complaints and investigations are being handled expeditiously. The compliance examiner is to determine the existence or nonexistence of violations of Florida law,¹³ and complete an investigative report with recommended actions.

The Office of the Hearing Officer (OHO) under the Department's Office of General Counsel maintains a separate database that is used to track administrative complaints issued; fines and penalties levied; and licenses suspended, revoked, or canceled in relation to the motor vehicle dealers. OHO also tracks cases that are referred to the Division of Administrative Hearings by the Department. Department staff indicated that the four positions within the OHO are entirely devoted to functions related to motor vehicle, mobile home, and recreational vehicle dealers.

Dealers are responsible for complying with record keeping requirements as defined in Florida law. These required records must be maintained for a period of 5 years.¹⁴ The Bureau conducts records inspections to verify that the motor vehicle dealer properly maintained all required records to comply with statutory requirements, and the Division has established a Dealer Records Inspections Procedure to assist Regional Offices in the conduct of records inspections of motor vehicle dealers, including follow-up inspections.¹⁵

¹⁰ Section 320.03(10), Florida Statutes.

¹¹ Section 320.865, Florida Statutes.

¹² Division Procedures Manual #CC-01.

¹³ Chapters 319 and 320, Florida Statutes.

¹⁴ Section 320.27(6), Florida Statutes. The requirements include, a record of the purchase, sale, or exchange, or receipt for the purpose of sale, of any motor vehicle; the issuance date of a temporary tag; the date of title transfer; and a description of such motor vehicle together with the name and address of the seller, the purchaser, and the alleged owner or other person from whom such motor vehicle was purchased or received or to whom it was sold or delivered.

¹⁵ Division Procedures Manual #EP-12.

Florida law provides that the Department may deny, suspend, or revoke any motor vehicle dealer license upon proof that a licensee has committed, with sufficient frequency so as to establish a pattern of wrongdoing on the part of a licensee, violations of one or more of the activities shown by EXHIBIT B.¹⁶

Florida law¹⁷ allows the following sanctions if the Department finds that the motor vehicle dealer licensee has violated Florida law or the Federal law and rule,¹⁸ related to dealing in motor vehicles.

- Fines up to \$1,000 per violation;
- License suspension for a definite period of time or indefinitely;
- Emergency Suspension Orders may be imposed by the Division Director in very serious cases, to protect the public. This is an immediate suspension pending a request from the dealer for a hearing;
- Revocation of license; and
- Criminal charges (any violation of Section 320.27, Florida Statutes, is a misdemeanor of the second degree).

Any licensee is entitled to a hearing pursuant to Florida law, if the licensee contests the sanctions levied upon the licensee.¹⁹ As shown by EXHIBIT C, during the period, July 2008 through February 2010, the Department issued approximately 14,000 dealer licenses (including original and renewal licenses), suspended approximately 900 licenses, revoked approximately 300 licenses, canceled approximately 1,400 licenses, received approximately 11,100 consumer complaints, and performed approximately 12,700 records inspections and 7,300 site inspections.

Finding No. 1: Regulatory Procedures

Our audit included a review of the policies and procedures related to the regulation of motor vehicle dealers. This review disclosed that applicable policies and procedures were set at the Region level, rather than by the Bureau. As a consequence, regulatory activities were inconsistently applied. For example:

- Unannounced ride-alongs are performed by Field Supervisors to observe the compliance examiners' work performance. The frequency of ride-alongs to be performed for each compliance examiner varied among the Regions:
 - Four per year for three Regions;
 - Two per year for two Regions;
 - At least one per year for two Regions;
 - Only as needed for one Region; and
 - None in the past 1 to 2 years (other than for training purpose) for two Regions.
- In order to promote the independence of compliance examiners and to adjust for changes in Regional staff, numbers of dealers, and other factors, the Region periodically rotates zones within the Region assigned to each compliance examiner. Region staff indicated that zone rotations occurred as follows:
 - No changes for one Region;
 - Two times in 3 years for two Regions;
 - Three times in 3 years for two Regions;

¹⁶ Section 320.27(9), Florida Statutes.

¹⁷ Sections 320.27(8) and 775.082, Florida Statutes.

¹⁸ Sections 559.901 through 559.9221, Florida Statutes; Title 15, Section 2304, United States Code; and Title 16, Part 455, Code of Federal Regulations.

¹⁹ Chapter 120, Florida Statutes.

- Four times in 3 years for one Region;
 - Some changes every year for three Regions; and
 - As needed for one Region.
- A routine records inspection is to be performed for each existing licensee:
- Annually for one Region;
 - Every 18 months for two Regions;
 - Every 2 years for two Regions;
 - Every 1 to 2 years for three Regions; and
 - Annually for franchise dealers and every 18 months for other dealers for two Regions.
- Only one of ten Regions was able to provide an established written policy related to motor vehicle dealer records inspections. The policy provided the minimum number of records inspections to be performed by each compliance examiner per year and priorities to be considered in determining the frequency of dealer records inspections. All Regions indicated that they use FRVIS reports of Dealers Needing Records Inspections for the selection of motor vehicle dealers for routine records inspections.
- The Regional Offices were to notify the Bureau Headquarters of open complaints that are not timely closed. In general, Regions periodically provided to the interim bureau chief or assistant bureau chief at Bureau Headquarters aging reports that contained a description of consumer complaint and follow-up actions taken. The aging and frequency of reporting varied by Region, as indicated by the following:
- Ninety-day aging report monthly for one Region;
 - Sixty-day aging report weekly for five Regions; and
 - Sixty-day aging report monthly for four Regions.
- The Regional Administrator was to initiate a request for administrative action based on investigative results. The method used to determine when an administrative action against a licensee was to be initiated varied among Regions:
- Two or more complaints with same violation based on severity and pattern for three Regions;
 - Three or more complaints with same violation based on severity and pattern for four Regions; and
 - Single severe violation (e.g., fraud, felony, failure to pay off a lien holder) or pattern of violations for three Regions.

Consistent written policies and procedures for all Regions would promote more efficient Bureau operations over the regulation of motor vehicle dealers and treat all consumers and motor vehicle dealers in a more consistent and equitable manner.

Recommendation: We recommend that the Bureau establish and implement consistent written policies and procedures to be followed by all Regions in their regulation of motor vehicle dealers in order to promote the consistency and efficiency of the Bureau's operations and consistent and fair treatments of consumers and motor vehicle dealers.

Finding No. 2: Compliance Examiner's Independence

The responsibilities of the compliance examiners within the Bureau include conducting records inspections of motor vehicle dealers, investigation of consumer complaints filed against motor vehicle dealers, review of original and

renewal applications of motor vehicle dealer licenses, inspections of motor vehicle dealer locations, and vehicle identification number verification. Our audit included a review of policies and procedures established regarding actual or perceived conflicts of interest related to the responsibilities of the compliance examiners.

Our audit disclosed that the Bureau had not established policies and procedures to require all compliance examiners to provide, with respect to the motor vehicle dealers under their oversight, periodic disclosures addressing actual and potential conflicts of interest, including the acceptance of gifts, personal relationships, financial interests, and offers of employment, or otherwise affirming the absence of all such conflicts. An effective procedure might require from each compliance examiner, submission of an annual statement (and updates upon any changes), disclosing actual and potential conflicts of interest or affirming the absence of such. These statements could then be used by Bureau management to ensure that, in making staff assignments, actual or perceived conflicts of interest have been considered and avoided.

In response to our audit inquiries, the Bureau indicated that assurance of independence was obtained through one or more of the following:

- The Field Supervisor or Regional Administrator observes each compliance examiner's interaction with motor vehicle dealers during unannounced ride-alongs and other performance of duties. (See finding No. 1.)
- The compliance examiner's zone assignment is periodically rotated within the Region. (See finding No. 1.)
- Work performed by each compliance examiner is reviewed by other Regional staff.
- During Regional meetings and Department's ethics training, training is provided on conflicts of interest.

While these steps provide some assurance of the detection of potential conflicts of interest, these methods may not timely disclose actual or perceived conflicts of interest which, should they occur, could impair the credibility of the Bureau's motor vehicle licensing and regulatory activities. For example, it is not clear that these methods would disclose conflicting personal relationships. Due to the significance of the compliance examiners' activities on the safety and welfare of consumers, written policies and procedures are necessary to maintain public confidence in the Bureau's decisions.

Recommendation: We recommend that the Bureau establish and implement written policies and procedures requiring compliance examiners and other Bureau staff who interact with motor vehicle dealers to submit an annual statement disclosing all conflicts of interest or affirming the absence of such impairments. We also recommend that this information be used by Bureau management to schedule compliance examiner assignments in a manner that avoids any actual or potential conflicts of interest.

Finding No. 3: Management Reviews

The Bureau's Quality Review Section consists of eight staff including the Bureau Chief. This Section performs quality control reviews of the Bureau's operations, which include reviews of samples of motor vehicle dealer applications processed by each Region to determine that the applications were in compliance with applicable laws and rules.

As part of the quality control reviews, the Bureau is also to perform annual management reviews of the Regional Offices to evaluate the existing processes relating to all activities performed within each Regional Office and identify areas of needed improvement. The standard management review form used includes the following topics related to the licensing and regulation of motor vehicle dealers:

- Dealer License Issuance.
 - Applications.

- Dealer License Fees.
- Renewal Procedures.
- Records Inspections.
- Auction Inspections.
- Unlicensed Dealer Investigations.
- Dealer Training.
- Consumer Complaints.
 - Intake.
 - Setting up Files.
 - Investigating and Closing.
 - Tracking and Aging Report.
 - Documentation of Action Taken.
 - Administrative Actions.

The Regional Administrators are provided a copy of the finalized report once the reviewer has reported the findings to the Bureau Chief. Any identified areas of needed improvement are discussed with the Regional Administrators at the time the report is provided to them. In the subsequent year, a follow-up review is to be completed to review the areas of concern and to reevaluate remaining processes to determine that all are still in compliance.

We reviewed the most recent management review report for each Region. Our review disclosed that management reviews were performed from July 2009 through November 2009 for the five northern Regions. However, no recent management reviews had been performed for the other five Regions. Bureau staff indicated that the reviews were not conducted due to one vacancy in the two positions responsible for performing the reviews. For these five Regions, the most recent management reviews were performed during the period July 2007 through November 2007.

Absent the performance of annual management reviews, the Bureau may not timely find and correct weaknesses in the operations of the motor vehicle dealer licensing and regulation program.

Recommendation: We recommend that the Bureau increase its efforts to perform an annual management review for each Region to better monitor the Regions' regulation of motor vehicle dealer licensing.

Finding No. 4: Dealer Records Inspections Reports

Compliance examiners are to use the Dealer Records Inspection Report (Report) to guide the conduct of routine records inspections of new and existing dealers, follow-up on previously failed inspections, and the investigation of consumer complaints. The Report is designed so that the work can be accomplished and documented in a predetermined step-by-step procedure, and includes the following seven sections:

- Section I – Displayed for Sale: Dealers are required to possess a properly assigned Certificate of Title or other approved proof of ownership for each used vehicle that is being offered for sale, a properly completed odometer disclosure statement, and an as-is buyer's guide. The examiner is required to select and review dealer records for at least five vehicles displayed for sale.

- Section II - Purchases and Sales: Dealers are required to keep records of purchases and sales transactions, an executed odometer disclosure statement, and a written certification that emissions control devices are in place. Dealers are also required to apply for the transfer of the title for the sold vehicle within 30 days of the date of delivery. The examiner is required to select and review dealer records for at least five sold vehicles.
- Section III – Temporary Tags: Dealers are required to keep an accurate record of temporary tags purchased and issued.
- Section IV – Trade-in Information: Dealers are not allowed to sell a trade-in vehicle before the new deal is consummated without a signed authorization from the consumer allowing the dealer to do so. The dealer must pay off any lien on a traded-in vehicle within 10 working days.
- Section V – Dealer Plates: Dealer plates are to be used only on vehicles in the dealer’s inventory and for sale. They may not be used on wreckers, parts, service vehicles, or any vehicles for which the dealer is accepting compensation.
- Section VI – Dealer Agents: Agents representing the dealer at auctions must be bona fide employees of the dealership.
- Section VII – Florida Statutes: The examiner reviews the major Florida Statutes governing motor vehicle dealers with the corporate officer, owner, or the dealer’s designee.

If a licensee fails a records inspection, the Bureau is to recommend corrective actions the dealer is to take within a set period of time. Division procedure requires that a follow-up inspection be conducted on a failed records inspection within 30, 60, or 90 days, as warranted. A follow-up inspection may be performed only on the failed sections of the previous inspection, unless the previous inspection revealed major or severe noncompliance with statutory requirements. An inspection due to consumer complaints may also be limited to a specific vehicle or a few vehicles (i.e., fewer than five).

We reviewed the Reports and applicable supporting documentation for 40 records inspections (28 routine inspections and 12 complaint-based inspections) that were performed from July 2008 through February 2010. The Reports indicated that motor vehicle dealers failed 15 of these inspections. Our review of the Bureau’s inspection records disclosed the following:

- For 5 of the 15 failed records inspections, a follow-up inspection was not performed within 90 days, although the Reports indicated that follow-up inspections should be performed within 30, 60, or 90 days depending on severity of noncompliance and the applicable Region’s procedures:
 - For 3 records inspections, no follow-up inspection was performed as of July 30, 2010. The failed records inspections were performed from April 27, 2009, through July 8, 2009.
 - For 2 records inspections, follow-up inspections were performed 227 and 265 days, respectively, from the date of the previous failed records inspection.
- For 9 of the 28 routine records inspections, the Reports were not properly completed. Specifically:
 - For 4 Reports, not all Sections of the Report were completed, nor were reasons for not completing sections documented. At least two sections were either not completed or incomplete for each of the 4 Reports.
 - For 5 Reports, the examiner did not select at least five of the vehicles displayed for sale (Section I) or at least five vehicles sold (Section II), or provide explanations for selecting fewer than five vehicles.
- The Bureau was unable to provide documentation that the compliance examiner obtained the applicable reports from FRVIS prior to performing the records inspection. For the 28 routine records inspections tested, no documentation was available to demonstrate that the examiner obtained the following FRVIS reports:

- For 20 records inspections, a Recent Title Transaction Report to determine the vehicles sold by the dealer (for use in Section II of the Report).
- For 19 records inspections, an ETR Inspections Report to determine the temporary tags issued to the dealer (for use in Section III of the Report).
- For 22 records inspections, Dealer License Registration Reports to determine all dealer plates assigned to the dealership (for use in Section V of the Report).

Division supervisory review procedures did not effectively ensure that the Reports were complete, the work was properly documented, and that failed records inspections were timely followed up.

Absent adequate Report completion, timely follow-up on failed inspections, and adequate documentation of the examiner's review of applicable reports, the Division may not timely detect dealer noncompliance with record keeping requirements. Dealer compliance with record keeping requirements ensures consumer protection and adequate resolution of consumer complaints.

Recommendation: The Division should enhance its procedures to ensure that supervisors review Reports for adequate completion and documentation and monitor the timely follow-up of failed records inspections.

Finding No. 5: Selection and Performance of Dealer Records Inspections

The Division's written procedures do not address how frequently to perform routine records inspections of new and existing dealers. In response to our audit inquiry, Regional staff indicated that a routine records inspection is to be performed within 90 days for a new dealer, and at least every 2 years (730 days) for each existing dealer. For 40 new and existing motor vehicle dealers, we reviewed available Department documentation demonstrating the performance of records inspections (including limited complaint-based inspections) during the period August 2008 through January 2010. Our review disclosed that, for 9 of the 40 dealers, routine records inspections were not performed, or were not performed timely. Specifically:

- For 3 existing dealers, based on Department records, limited complaint-based inspections had been performed, but no routine records inspections had been performed from August 2006 through the license revocation or cancellation date. The complaint-based inspections included a review of the records for five vehicles displayed for sale for one dealer and for one sold vehicle's records for the other 2 dealers. These dealer licenses were originally issued on December 21, 2004, June 8, 2005, and August 4, 2006; and canceled or revoked on January 1, 2010, January 20, 2010, and August 6, 2009, respectively.
- For 4 new dealers, routine records inspections had not been performed timely. For these dealers, the number of days from the license issuance date to the records inspection date ranged from 189 to 430 days.
- For one existing dealer, no routine records inspection had been performed since June 27, 2006, or 1,231 days from the previous routine inspection to November 9, 2009, when the applicable dealer location closed. One complaint-based inspection was performed in September 2009, which only included a review of the records for five vehicles sold.
- For one existing dealer, whose license for an additional location was issued on June 9, 2008, one limited complaint-based inspection was performed on March 5, 2009, for which only one sold vehicle's records were examined, but no routine records inspection had been performed as of July 30, 2010 (or 781 days from the issuance date).

During our other testing, we identified 27 additional dealers for which routine inspections had not been performed, or had not been performed timely based on FRVIS records. Specifically, as of July 30, 2010, the number of days elapsing

since the last inspection ranged from 899 to 1,981 days for 16 dealers. For 11 dealers, no routine inspections had been performed since the implementation of FRVIS tracking records in 2005.

We noted the following procedural issues which at least contributed to the untimely inspections:

- The Division's written procedures did not provide to the Regions adequate guidance for the selection of new and existing motor vehicle dealers for routine records inspections and for the tracking of planned inspections and the inspections actually performed.
- The Division had not established a risk-based process to be used in scheduling the inspections.

Absent adequate planning, performance, and monitoring of routine records inspections for new and existing motor vehicle dealers, the Division may increase the risk that its resources are not being used effectively and efficiently.

Recommendation: We recommend that the Division provide specific guidance to the Regional Offices relating to the selection of new and existing dealers for routine records inspections. The Division should also consider establishing a uniform risk-based methodology for planning, performing, and monitoring routine records inspections.

Finding No. 6: Surety Bond and Garage Liability Insurance

Pursuant to Florida law,²⁰ the Department requires that all motor vehicle dealers maintain a surety bond²¹ in the amount of \$25,000 to protect motor vehicle consumers from violations by motor vehicle dealers of the conditions of contract²² or applicable Florida law in the conduct of the business for which the dealer is licensed. Additionally, the Department requires that all motor vehicle dealers maintain garage liability insurance to provide protection and reimburse motor vehicle consumers for bodily injuries or property damage sustained in connection with the sale, proposed sale, or exchange of any motor vehicle or applicable Florida law. The garage liability must include, at a minimum, \$25,000 combined single-limit liability coverage including bodily injury and property damage protection and \$10,000 personal injury protection.

Division procedures provide that if a motor vehicle dealer fails to maintain the required surety bond or garage liability insurance, the Division Director is to immediately impose an Emergency Suspension Order (ESO)²³ on the dealer's license to protect motor vehicle consumers who might otherwise suffer a loss as the result of the dealer's violation or misconduct. Division procedures further provide that upon a receipt of bond or insurance cancellation notice, the OHO is to input a status alert into FRVIS and issue an ESO, which is to be hand delivered to the dealer by applicable Regional staff. If the dealer cannot be located, a notice is to be published once a week for four consecutive weeks in a newspaper that serves the area where the dealership was located, informing the dealer of the ESO.

We reviewed Department records for ten motor vehicle dealers, whose license had been suspended or revoked, and whose surety bond or garage liability insurance was canceled or expired during the period July 2008 through February 2010. Our review disclosed that the Department did not immediately suspend the licenses of four motor vehicle dealers who failed to maintain the required surety bond or garage liability insurance, leaving consumers at risk for periods ranging from 49 to 106 days. Specifically:

- Surety Bond:

²⁰ Sections 320.27(3) and (10), Florida Statutes.

²¹ Through a surety bond, the surety agrees to uphold, for the benefit of the consumer, the contractual promises or obligations made by the motor vehicle dealer should the dealer fail to uphold its promises to the consumer.

²² A written contract made by the motor vehicle dealer in connection with the sale or exchange of any motor vehicle.

²³ Division Procedures Manual #CC-04, Attachment B, Order of Emergency Suspension and Administrative Complaint.

- For one dealer, the Department received a cancellation notice effective October 10, 2009, on August 28, 2009, however, the ESO was not delivered until December 16, 2009, 67 days after the cancellation.
 - For another dealer, the Department received a cancellation notice effective October 12, 2009, on September 9, 2009; however, the ESO was not delivered until January 26, 2010, 106 days after the cancellation. Department records indicated that the Regional Office was not aware of the cancellation until January 20, 2010, although an alert was input into FRVIS on September 14, 2009. Unaware that the bond had been canceled, the Regional Office provided the bond information to a consumer, who filed a consumer complaint against the dealer on December 21, 2009, seeking a claim for monetary damages. (See Dealer 5 in finding No. 7 for more details.)
- Garage Liability Insurance:
- The Department received a cancellation notice effective July 27, 2009, on August 6, 2009, due to the dealer's nonpayment of premium. The ESO was issued on September 14, 2009, (49 days after the cancellation) when the Regional Office found the location abandoned subsequent to receiving information from another dealer that the dealership had closed. All attempts to contact the dealer were unsuccessful (i.e., the ESO could not be delivered); therefore, a legal notice was published in a local newspaper on November 13, 2009, November 20, 2009, November 27, 2009, and December 4, 2009.
 - According to Department records, no ESO was issued when a motor vehicle dealer's garage liability insurance expired on September 15, 2009. The dealer voluntarily revoked its license on November 3, 2009, 49 days after the cancellation, following repeated violations of Florida law (Chapter 319, Florida Statutes).

The execution of Department procedures was not adequate to ensure that the Department immediately suspended motor vehicle dealer licenses when the dealer failed to maintain the required surety bond or garage liability insurance. Absent the required surety bond and garage liability insurance, consumers may not be afforded protection from losses.

Recommendation: We recommend that the Department enhance its procedures to ensure immediate suspension of motor vehicle dealer licenses when a surety bond or garage liability insurance is canceled or expired.

Finding No. 7: Administrative Actions

A Regional Office or Bureau Headquarters may initiate a request for administrative action²⁴ based on the findings of an investigation of a consumer complaint or a routine visit to a dealership. The primary tool used by the Department to gauge the frequency of violations by dealers is the Department's FRVIS records on consumer complaints and records inspections. To identify the violations noted, the Department inputs the applicable FRVIS codes as shown by EXHIBIT D.

Although any violation of licensure laws may theoretically serve as the basis for initiating administrative action, it is the Division's policy that:

- Discipline or sanctions are last resort actions to be used only if a motor vehicle dealer's cooperation or correction of conduct cannot be obtained any other way;
- The least severe disciplinary action or sanction should be used to ensure the future cooperation of the dealer; and

²⁴Division Procedures Manual #CC-04.

- The Bureau's primary goal in complaint cases is to assist in a satisfactory resolution of complaints and the administrative action is secondary in importance to resolving complaints.

While the Division's policy addresses consumer protection and fair treatment of dealers, our audit disclosed that the Division in the execution of its policy, may not have taken timely administrative actions in some cases. For example, we reviewed Department FRVIS records for 16 motor vehicle dealers whose licenses were revoked or suspended during the period July 2008 through February 2010. Our review disclosed the following for 5 of these 16 dealers: (See EXHIBIT E for a summary of violations documented in FRVIS for these 5 dealers.)

- Four dealers voluntarily revoked their licenses after committing numerous violations of licensure laws. Violations resulting from consumer complaints included forged or altered certificates of title (Code 004), use of false information on the application for a certificate of title (Code 009), failure to provide a customer with required documents (Code 016), or failure to timely satisfy any outstanding liens (Code 031). Additionally, the dealers also failed at least 4 records inspections before the licenses were revoked. (See EXHIBIT E, Dealers 1-4.)
- For one dealer's license suspended by the Department, the Final Order indicated only that the dealer had not maintained a surety bond, although the FRVIS records indicated that the dealer committed 27 violations of licensure laws and failed ten records inspections from May 2008 through January 26, 2010, the date the Emergency Suspension Order was delivered. The violations included a stolen title (Code 007) and failure to comply with the contract terms pursuant to the sale of a motor vehicle (Code 013).
- The Department received additional valid consumer complaints (i.e., complaint with at least one violation) ranging in number from 3 to 37 for each dealer subsequent to license revocation or suspension. These later violations included failure to comply with the contract terms pursuant to the sale of a motor vehicle (Code 013) and failure to timely file the title application (Code 070).
- For 3 of the 5 dealers, FRVIS records indicated that one, 2, and 7 complaints, respectively, were referred by the Bureau for administrative action. However, OHO records did not indicate that the OHO had received any referrals from the Bureau for these dealers; therefore, the OHO did not review the cases to initiate an Administrative Complaint or other sanctions against the dealers.
- The Department renewed the licenses for all 5 dealers, which were later revoked voluntarily or suspended, although the Department had valid customer complaints filed against the dealers in the 2 years prior to the applications for license renewal. Division procedure provides that a dealer in good standing would have no valid complaints filed against the dealer currently or in the past two years.²⁵

Prior to the revocation or suspension of the licenses of these 5 motor vehicle dealers, FRVIS records indicated that the Department took the following disciplinary actions:

- Dealer 1: The Regional Administrator sent four letters of reprimand to the dealer and provided surety bond information to three consumers to assist them in filing a claim against the dealer for monetary damages.
- Dealer 2: The Regional Administrator sent nine letters of reprimand to the dealer and held two dealer conferences.
- Dealer 3: There was no documentation of any enforcement actions or sanctions taken.
- Dealer 4: The Regional Administrator sent nine letters of reprimand to the dealer.
- Dealer 5: There was no documentation of any enforcement actions or sanctions taken. Surety bond information was provided to two consumers to assist them in filing a claim against the dealer for monetary damages.

As indicated in EXHIBIT E, numerous complaints were filed by consumers over a period of approximately 18 months, ranging from 14 to 37 violations per dealer, prior to the voluntary revocation or suspension of the 5 dealers' licenses. Additional complaints were filed after the revocation or suspension date, ranging from 3 to 37 violations per dealer.

²⁵ Division Manual, DLR-01.

If the Department had pursued more timely administrative actions such as filing Administrative Complaints (rather than Agreements for Voluntary Revocation of License which require the Department to obtain the dealer's cooperation), additional violations would not have occurred. Also, although FRVIS records indicated complaints had been referred for administrative action for 3 of the 5 dealers, OHO had no record of having received such referrals, which may have prevented the Department from taking more timely administrative action.

The delays in taking effective administrative action may have been caused by an absence of a Division-level monitoring function that periodically included a review of the records of dealers with an extensive history of complaints or violations. Absent adequate procedures, the Department is limited in its ability to provide adequate consumer protection. Additionally, the motor vehicle dealer's incentive to correct violations may be reduced if the Division does not timely enforce effective administrative actions or sanctions when the dealer fails to remedy violations.

Recommendation: We recommend that the Department be more proactive in taking timely and effective administrative actions against motor vehicle dealers for frequent and severe violations.

Procurement and Expenditures

Our audit included tests designed to evaluate Department procurement and expenditure processes for contractual services, travel, supplies and commodities, tangible personal property acquisitions, general and administrative operating activities, and fixed capital outlay. For the period July 2008 through February 2010, the related procurement and expenditure transactions totaled approximately \$57.1 million and \$151.1 million, respectively.²⁶

Finding No. 8: Legal Review and Approval for Procurements

Florida law requires the Department to obtain prior to contract execution, legal review and approval for all contractual services contracts of \$50,000 or more.²⁷ Established Department procedures also required legal review and approval to be obtained for proposed purchases of contractual services costing \$50,000 or more. Our audit disclosed that the Department did not apply this requirement to purchases processed through MyFloridaMarketPlace (MFMP), unless the purchase was considered to be complicated or unusual. As a result, contractual services contracts of \$50,000 or more (executed through MFMP during the period July 2008 through February 2010 with award amounts totaling approximately \$43.7 million) were not always subject to legal review and approval.

We reviewed eight contractual services contracts of \$50,000 or more with award amounts totaling \$3,882,777 which were processed through MFMP and executed during the period July 2008 through February 2010. Our review disclosed that the Department did not obtain legal review or approval for three of the contracts with award values totaling \$1,386,288. These contracts related to document printing, consulting services for a media campaign, and access charges for the Commercial Driver License Information System.

In response to our audit inquiry, Department management indicated that the Department did not require legal review or approval for contracts processed through MFMP. Absent the required legal review and approval, the Department may approve purchase orders the terms of which do not comply with all applicable laws and rules and adequately protect the interests of the State and the Department.

²⁶ The number and amounts of the items tested are described in the **OBJECTIVES, SCOPE, AND METHODOLOGY** section of this report.

²⁷ Section 287.057(18), Florida Statutes. Effective July 1, 2010, the legal review and approval threshold is \$65,000.

Recommendation: The Department should enhance its internal controls to ensure that, prior to contract execution, legal review and approvals are obtained for all contractual services contracts (including contracts processed through MFMP) of \$50,000 or more.

Finding No. 9: Invoices With Available Discounts

Pursuant to Florida law and rule, the Department is to preferentially process all invoices which provide for discount terms and to use diligence in order to obtain the savings offered by the invoice terms.²⁸ Our audit disclosed that the Department had not established written policies or procedures to prioritize the processing of invoices which provide discount terms.

Our review of 12 invoices, totaling \$128,570 for one Direct Order disclosed that the vendor provided a 1 percent discount on all 12 invoices for payments made within 20 days. The Department made payments within 20 days for 7 of the invoices totaling \$112,023 without taking the discount. Subsequent to our audit inquiry, Department staff identified 47 invoices (including the 7 invoices that we noted) relating to this contract and totaling \$284,204, which the Department had paid within 20 days, but without taking the offered discount of \$2,842. The Department requested and received a refund check of \$2,842 from the vendor in July 2010.

Department staff indicated that the contract manager did not alert the accounting office about the availability of a discount on the invoice and accounting staff failed to notice the discount available on the invoice prior to making payments. Department staff also indicated that, subsequent to our audit inquiry, the Department established desk procedures for processing invoices with discount terms and notified all contract managers and applicable accounting staff of the new procedures.

Recommendation: The Department should consider reviewing the payments made to other vendors offering discounts and verify that all discounts have been taken.

Finding No. 10: Fees Charged for Bank Services

Relative to the collection of various license, title, and other fees, the Department accepts credit and debit cards as a merchant (receiving payments) and incurs transaction fees and other charges to process card transactions. The transaction fee may be a merchant discount fee for American Express transactions, which is a percentage (discount rate) of the face amount of charges, or an interchange fee for Visa or MasterCard transactions, which is a percentage (interchange rate) of the sales volume (i.e., number of transactions and sales amount). Interchange rates vary by interchange program, which is determined by card type, merchant business type (i.e., Merchant Category Code), how a transaction is processed (face-to-face, online, mail or telephone order), and speed and accuracy of a transaction.

During the period July 2008 through February 2010, the Department had four significant contracts (totaling \$5,741,400) active with two vendors for card transactions and other bank services. The Department pays a discount fee or interchange fee to the vendor based on the fee schedule included in the contract agreement. The fees are debited monthly from the Department's deposit account or billed periodically to the Department via an invoice process.

²⁸ Section 215.422(4), Florida Statutes, and Department of Financial Services Rule 69I-24.003(8), Florida Administrative Code.

Pursuant to Florida law, the Department appointed a contract manager and established written procedures to ensure that the bank services were received in accordance with contract terms and conditions.²⁹ Department-established written procedures included a detailed process for reconciliation of the net sales amount on the vendor invoice to the net revenues deposited to the State's account by the vendor prior to making a payment for the invoice, but did not require a comparison of fees charged on the invoices to those required under the contract terms and rates.

For bank service fees, the Department paid \$4,216,403 during the period July 2008 through February 2010. Our audit disclosed that the Department did not compare fees charged on any of the invoices totaling \$4,216,403 to the contract terms and rates, although Department staff properly reconciled the sales amount on the vendor invoices to the revenues deposited to the State's account.

Although our audit tests did not disclose material overpayments, absent proper verification of fees charged, the Department's risk of overpaying the vendor for the credit and debit card services increases. The Department revised its written procedures subsequent to our audit inquiry to ensure that all credit card and bank card fees are accurately applied on future invoices.

Recommendation: **The Department should verify the accuracy of bank service fees prior to payment.**

ADDITIONAL MATTERS

Finding No. 11: Cancellation of Purchasing Cards

The Department takes part in the State's Purchasing Card Program (Program), which allows authorized personnel the ability to charge expenses on purchasing cards. The Department had 1,003 active purchasing cards as of March 3, 2010, and charged approximately \$4.1 million during the period July 2008 through February 2010.

As a condition of participation in the Program, the Department is responsible for the implementation of key controls, including procedures providing for the timely cancellation of purchasing cards upon a cardholder's separation from Department employment. According to the Department's Purchasing Card Guidelines, the Purchasing Card Program Administrator (PCPA) is responsible for prompt cancellation of purchasing cards when a cardholder separates from the Department, when a cardholder misuses or processes purchasing card transactions untimely, and when a cardholder's job duties no longer require the use of the purchasing card.

The Department's Inspector General (IG) performed a purchasing card audit to determine the adequacy and effectiveness of controls for managing and processing purchasing card transactions for the period July 2009 through January 2010.³⁰ The IG report disclosed the following:

- Three purchasing cards were not promptly canceled or deactivated for periods ranging from 113 to 961 days after the cardholder's separation from Department employment.³¹ Also, the Purchasing Card Guidelines or Management Policies did not provide guidance on how to or who was responsible for notifying the PCPA when a cardholder separates from the Department.
- Cardholder files for cardholders who had credit limits in excess of the standard limit did not contain the required justification and analysis to support the increased credit limits.

²⁹ Section 287.057(14), Florida Statutes.

³⁰ The Department's Office of Inspector General, *Purchasing Card Audit*, Audit Report No. 200910-02, dated June 2, 2010.

³¹ IG personnel compared the current cardholders to the current Department employees as of March 4, 2010, and noted three cardholders who were no longer employed by the Department.

- The Purchasing Card Program Reconciler was not reconciling all monthly transactions to the purchasing card receipts within 10 days after the end of each month. Only transactions that appeared out of the ordinary were reconciled and there was no documentation that the reconciliation process had been completed.

Similarly, our audit procedures identified 101 cardholders who had separated from the Department during the period July 2008 through February 2010. We noted that in 25 instances (or 24.8 percent) the cardholder's purchasing card was not timely canceled. The 25 purchasing cards had remained active for periods ranging from 6 to 252 days after the cardholder's date of separation from Department employment. Specifically:

- Fourteen of the 25 purchasing cards remained active for 6 to 17 days after the cardholder's separation date.
- Eleven of the 25 purchasing cards remained active for 37 to 252 days after the cardholder's separation date.

Although our audit test did not disclose any usage of these cards subsequent to employee separation, absent timely identification of purchasing cardholders who have separated from the Department, and verification that assigned cards were retrieved and promptly deactivated or canceled, unauthorized purchases may occur and not be timely detected.

The IG report also disclosed that Department staff completed corrective actions, which included the purchasing card cancellation for the three former employees, reduction of credit limits subsequent to consultation with appropriate Department staff, and revision of Department procedures for the reconciliation of monthly cardholder activities.

Recommendation: We recommend that the Department continue its efforts to enhance its procedures for routine identification of terminated employees to ensure the timely cancellation or deactivation of purchasing cards upon a cardholder's separation from the Department.

Finding No. 12: FLAIR Access

Florida Accounting Information Resource Subsystem (FLAIR) access should be limited to help prevent and detect any improper or unauthorized access and should be timely removed when employees separate from the Department or are assigned to positions not requiring access. Prompt action is necessary to ensure that a former employee's FLAIR access privileges are not misused by the former employee or others.

Department procedures required the section supervisor to notify the Department's FLAIR access control custodian when an employee terminates, but the procedures did not specify a timeframe for such notifications. Additional Department controls required that passwords expire 90 days after created. When a password expires, only the FLAIR access control custodian can reset the password.

We reviewed the FLAIR access records for ten employees with significant FLAIR update capabilities who had separated from the Department during the period July 2008 through February 2010. Our tests disclosed nine instances in which the FLAIR access privileges of former employees had not been timely removed. Specifically:

- Seven employees' FLAIR access privileges were not removed for periods ranging from 13 to 246 days after the employees separated from the Department. The access privileges for these former employees included the ability to record accounts receivable and payable and the ability to access the list of authorized payees who receive an Electronic Funds Transfer payment.
- Two employees' FLAIR access privileges were not removed until 244 and 297 days, respectively, after separation when the Department of Financial Services purged the access control records, as the former employees' passwords had not been updated for 12 months or longer. The access privileges for these former employees included the ability to record cash receipts and the ability to transfer revenues between FLAIR account codes.

Subsequent to our audit inquiry, Department staff updated procedures, effective April 21, 2010, to require the section supervisor to notify the FLAIR access control custodian within 24 hours of an employee's separation from Department employment.

Although our audit tests did not disclose any utilization of these terminated employees' FLAIR access privileges, proper administration of access to FLAIR is necessary to ensure that the integrity and security of Department accounting records are not compromised and State assets are safeguarded.

Recommendation: Department staff should continue efforts to enhance Department procedures for routine identification of terminated employees to ensure that the FLAIR access privileges are timely removed.

Finding No. 13: Security Awareness Training

The Department's established procedures required ongoing security awareness training for its new employees, who were to electronically sign a statement acknowledging (electronic acknowledgement) that they had received, read, and understood the guidelines contained in the *Information Technology Security Awareness Handbook*; that they understand they are fully responsible for the security of the information that they use; that any actions taken under their assigned identification are their responsibility; and that they are to adhere to future additional guidelines, policies, and procedures as they become available.³² However, we noted that, of 25 selected new employees hired by the Department during the period July 2009 through December 2009, 21 employees had not received the required security awareness training as of April 20, 2010. For the 4 employees who received the training, an average of 118 days had elapsed between the training date and the employees' appointment dates (i.e., 6 days for one employee, 154 days for another employee, and 156 days for the other two employees).

Department personnel indicated that, since January 2009, the Department has been in process of moving its security awareness training to a new online learning management system that will require training for a new employee when hired and annual training for existing employees. Department staff also indicated that the current system's inability to produce usable reports showing who had or had not completed training and the delay of the implementation of a new system were contributing factors to the deficiencies noted.

A comprehensive security awareness training program would decrease the risk that the Department's IT resources may be intentionally or unintentionally compromised by employees while performing their assigned duties. The lack of ongoing security awareness training limits management's assurance that employees understand the importance of IT security and are sufficiently prepared to help safeguard data and IT resources.

Recommendation: The Department should continue its efforts to improve the ongoing security awareness training program.

PRIOR AUDIT FOLLOW-UP

As part of our audit, we determined that the Department had taken corrective actions for the findings included in our audit report No. 2009-089.

³² Department's Information Security Policy Manual #A-03, effective December 1, 2008.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from March 2010 to August 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on the licensing and regulating of motor vehicle dealers and Department procurement and expenditures for commodities and contractual services. Our audit also included a follow-up on prior audit findings included in audit report No. 2009-089. The overall objectives of the audit were:

- To evaluate the effectiveness of established internal controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the validity and reliability of records and reports; and the safeguarding of assets.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all deficiencies disclosed in audit report No. 2009-089.

In conducting our audit, we:

- Evaluated Department internal controls (including those related to information technology resources utilized) over the motor vehicle dealer licensing and regulation, including qualification and training of compliance examiners.
- Reviewed Department records for ten selected compliance examiners, one from each of the ten Regions, to evaluate the examiners' qualifications, training, and independence.
- Analyzed licensing and title activities related to motor vehicle dealers to determine overall trends and if amounts were reasonable and correctly recorded in FLAIR and FRVIS, and reconciled. Analyzed the program revenues and costs to determine whether the motor vehicle dealer licensing and regulation program is self-sufficient, i.e., generating sufficient revenues to cover the program costs.
- Reviewed Department records for 40 selected applications received during the period July 2008 through February 2010 to determine whether the applications were properly graded (evaluated) and timely processed, locations were inspected, and correct application fees were collected and deposited, prior to issuance of a license.
- Reviewed Department internal controls for denied applications to determine whether Division staff properly documented reasons for denials by Division, approvals by Division headquarters, notifications to applicants, and any administrative procedures taken in accordance with the applicable law and Division procedures.
- Reviewed Department records from eight Regions for 20 licenses that were suspended or revoked during the period July 2008 through February 2010, to determine whether the suspensions and revocations were reasonable and timely, and fines and penalties were properly assessed, collected, and deposited.

- Reviewed Department records for 40 consumer complaints received during the period July 2008 through February 2010 to determine whether the complaints were timely evaluated, appropriate action was taken, and resolution was properly recorded in FRVIS.
- Reviewed Department records for 40 dealer records inspections (including limited complaint-based inspections) performed during the period July 2008 through February 2010 to evaluate the Department's monitoring of dealer compliance with statutory record-keeping requirements.
- Performed inquiries at Regional Offices regarding how dealers are selected for routine records inspections. Performed analytical procedures to determine the basis of dealer selection (e.g., routine or complaints-based selection) and generally how often dealer records were inspected for each Regional Office. Evaluated effectiveness and efficiency of the dealer selections for records inspections for each Regional Office.
- Reviewed Department's monitoring procedures performed to identify motor vehicles sold by unlicensed dealers. Tested Department records for ten dealers located in three cities (Miami, Orlando, and Tampa) that were selected from published advertisements to determine if the dealers were properly licensed by the Department.
- Obtained an understanding of Department internal controls over the procurement and expenditure processes and evaluated whether the controls were appropriately designed, implemented and operating effectively.
- Performed various analytical procedures on procurement and expenditures to identify anomalies in account balances and transactions and significant deviations in anticipated trends.
- Tested 200 expenditure transactions (85 general and administrative, 56 supplies and commodities expenditures, 29 contractual services, 10 tangible personal property, 10 travel, and 10 fixed capital outlay) totaling \$2.7 million and 40 procurement transactions (13 contractual services, 10 supplies and commodities, 13 tangible personal property, and 4 fixed capital outlay) totaling \$44.3 million during the period July 2008 through February 2010 to determine whether the Department:
 - Procured and paid for goods and services in accordance with governing laws, rules, and Department policy.
 - Ensured that goods and services served an authorized purpose of the State and were procured at a reasonable and necessary cost.
 - Ensured that expenditure transactions recorded in FLAIR were authorized, timely recorded, correctly coded (i.e., appropriate funding source, fiscal period, object code, etc.), appropriate in amount, and supported by adequate documentation.
- Obtained an understanding of information technology controls related to the Florida Real-Time Vehicle Information System, Electronic Filing System, and Electronic Temporary Registration System and, to the extent necessary to accomplish our audit objectives, tested the effectiveness of relevant controls.
- Performed various other auditing procedures including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe those matters requiring corrective actions.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a biennial basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

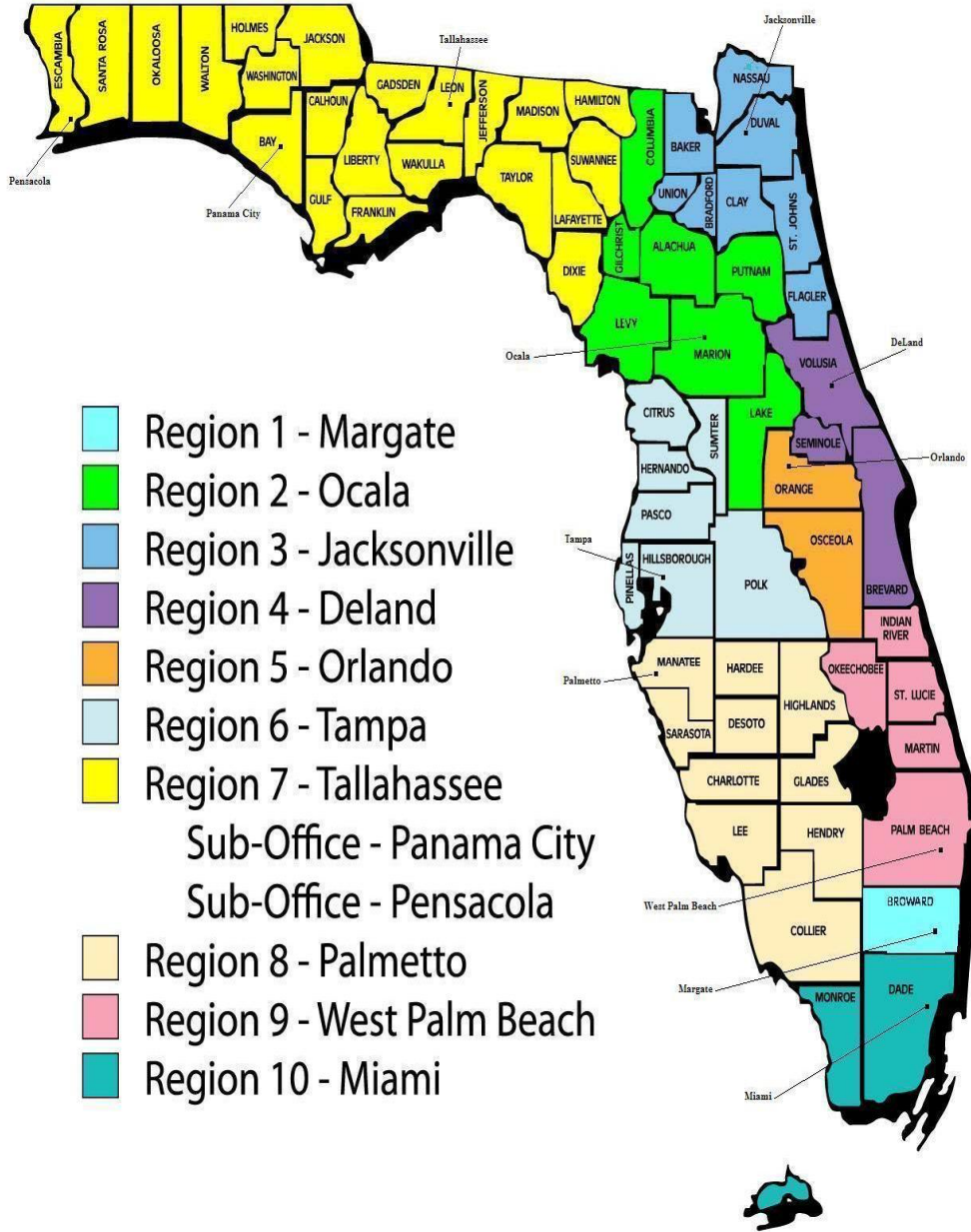


David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

In a response letter dated January 7, 2011, the Executive Director of the Department concurred with our audit findings and recommendations. The Executive Director's response is included as EXHIBIT F.

**EXHIBIT A
DIVISION OF MOTOR VEHICLES
BUREAU OF FIELD OPERATIONS
OFFICE LOCATIONS**



Source: Department records.

EXHIBIT B
ACTIVITIES THAT MAY RESULT IN THE DENIAL, SUSPENSION,
OR REVOCATION OF A MOTOR VEHICLE DEALER LICENSE

- Representation that a demonstrator is a new motor vehicle, or the attempt to sell or the sale of a demonstrator as a new motor vehicle without written notice to the purchaser that the vehicle is a demonstrator.
- Unjustifiable refusal to comply with a licensee's responsibility under the terms of the new motor vehicle warranty issued by its respective manufacturer, distributor, or importer.
- Misrepresentation or false, deceptive, or misleading statements with regard to the sale or financing of motor vehicles which any motor vehicle dealer has, or causes to have, advertised, printed, displayed, published, distributed, broadcast, televised, or made in any manner with regard to the sale or financing of motor vehicles.
- Failure by any motor vehicle dealer to provide a customer or purchaser with an odometer disclosure statement and a copy of any bona fide written, executed sales contract or agreement of purchase connected with the purchase of the motor vehicle purchased by the customer or purchaser.
- Failure of any motor vehicle dealer to comply with the terms of any bona fide written, executed agreement, pursuant to the sale of a motor vehicle.
- Failure to apply for transfer of a title.
- Use of the dealer license identification number by any person other than the licensed dealer or his or her designee.
- Failure to continually meet the requirements of the licensure law.
- Representation to a customer or any advertisement to the public representing or suggesting that a motor vehicle is a new motor vehicle if such vehicle lawfully cannot be titled in the name of the customer or other member of the public by the seller using a manufacturer's statement of origin.
- Requirement by any motor vehicle dealer that a customer or purchaser accept equipment on his or her motor vehicle which was not ordered by the customer or purchaser.
- Requirement by any motor vehicle dealer that any customer or purchaser finance a motor vehicle with a specific financial institution or company.
- Requirement by any motor vehicle dealer that the purchaser of a motor vehicle contract with the dealer for physical damage insurance.
- Perpetration of a fraud upon any person as a result of dealing in motor vehicles, including, without limitation, the misrepresentation to any person by the licensee of the licensee's relationship to any manufacturer, importer, or distributor.
- Unlawful acts in connection with motor vehicle odometer readings.
- Sale by a motor vehicle dealer of a vehicle offered in trade by a customer prior to consummation of the sale, exchange, or transfer of a newly acquired vehicle to the customer, unless the customer provides written authorization for the sale of the trade-in vehicle prior to delivery of the newly acquired vehicle.
- Willful failure to comply with any administrative rule adopted by the Department or Florida law for issuing temporary tags using the electronic system.
- Violation of Florida law for dealing in or repairing motor vehicles and, in the case of used motor vehicles, the willful violation of the Federal law and rule pertaining to the consumer sales window form.
- Failure to maintain evidence of notification to the owner or co-owner of a vehicle regarding registration or titling fees owed as required by Florida law.

Source: Section 320.27(9)(b), Florida Statutes.

EXHIBIT C
DIVISION OF MOTOR VEHICLES
LICENSING AND REGULATION ACTIVITIES BY REGION
JULY 2008 THROUGH FEBRUARY 2010

Activities	Region 1	Region 2	Region 3	Region 4	Region 5	Region 6	Region 7	Region 8	Region 9	Region 10	TOTALS
Licenses Issued ^a	1,460	932	1,028	1,382	1,316	2,688	1,058	1,467	1,120	1,566	14,017
Licenses Canceled	135	52	76	187	158	286	148	143	155	88	1,428
Licenses Suspended	208	32	52	43	141	97	30	60	61	183	907
Licenses Revoked	46	5	26	27	60	38	25	21	28	41	317
Consumer Complaints Received ^b	1,859	339	598	1,017	1,525	1,538	688	725	1,178	2,040	11,507
Records Inspections Performed ^b	1,363	895	973	1,319	1,090	2,319	1,235	1,175	1,125	1,587	13,081
Site Inspections Performed ^b	1,473	262	496	484	609	708	251	2,206	480	745	7,714

^a Includes original and renewal licenses for primary and supplemental locations.

^b Due to dealers with locations in multiple Regions, some complaints, records inspections, and site inspections were counted more than once based on the methodology used by the Department in providing the information by region. When eliminating the duplicate complaints, records inspections, and site inspections, the actual net totals were 11,086, 12,687, and 7,303, respectively.

Source: FRVIS Detail Files Provided by Department.

EXHIBIT D
FLORIDA REAL-TIME VEHICLE INFORMATION SYSTEM (FRVIS)
LICENSURE LAW VIOLATION CODES AND DESCRIPTIONS

FRVIS Code	Applicable Section of Florida Statutes	Violation Description
004	319.33(1)(a)	To alter or forge certificate of title, assignment thereof, or cancellation of lien.
007	319.33(1)(c)	To procure or attempt to procure, pass, or attempt to pass a certificate of title, knowing or having reason to believe that such motor vehicle has been stolen.
009	319.33(1)(e)	To use a false or fictitious name, give a false or fictitious address, or make any false statement in application, affidavit, bill of sale, etc.
013	320.27(9)(b)5.	Failure to comply with the terms of any bona fide written, executed agreement, pursuant to the sale of a motor vehicle.
016	320.27(9)(b)4.	Failure to provide a customer or purchaser of a motor vehicle with an odometer disclosure statement and a copy of any bona fide written, executed sales contract or agreement of purchase.
022	320.27(9)(b)8.	Failure to continually meet the requirements of the licensure law.
023	320.27(9)(b)16.	Willful failure to comply with any administrative rule adopted by the Department or Florida law for issuing temporary tags using the electronic system.
024	320.27(6)	Failure to keep records in the form prescribed by the Department.
030	319.24(2)	Submitting an application for title where the name of the first lien holder does not match the name listed in the Department records.
031	319.24(5)(a)	Failure by the dealer to satisfy any outstanding lien within 10 working days of acquiring ownership of a motor vehicle.
043	320.13	Failure to use the dealer tag in accordance with the provisions of Section 320.13, Florida Statutes.
046	320.27(9)(b)17.	Willful violation of the Federal law and rule pertaining to the consumer sales window form.
049	320.27(9)(b)14.	Knowingly tampering, adjusting, setting back, or disconnecting an odometer or providing false information on its readings.
051	319.225(4)	Failure to complete the statement disclosing the mileage at the time of title transfer required to be signed by the transferee.
055	319.22(5)	Transferring title to a motor vehicle without adding the purchaser's name on the title.
058	319.28(2)(b)	Failure to have satisfactory proof of ownership or right of possession of a repossessed motor vehicle, or to notify subsequent lien holders of repossession.
067	320.131(2)	Issuing more than two temporary tags for one person for the same vehicle.
068	320.131(3)	Unlawful issuance of a temporary tag.
069	319.34	Failure to deliver certificate of title to motor vehicle purchaser.
070	319.23(6)	Failure to file application for title within 30 days from the delivery of the motor vehicle to the purchaser.
072	319.14(1)	Failure to have title conspicuously marked to identify the vehicle was used as a taxicab, police vehicle or short-term lease vehicle, a flood vehicle, or rebuilt or assembled from parts.
073	319.14(3)	Failure to disclose in any advertisement that a vehicle title is branded as described for code 072 above.
074	319.14(2)	Failure to disclose in writing that the vehicle title is branded as described for code 072 above.
076	320.27(9)(b)6.	Failure to apply for transfer of a title as described for code 070 above.
091	319.23(7)(b)	Failure to obtain a current motor vehicle registration prior to application for certificate of title.

Source: Department Records and Florida Statutes.

EXHIBIT E
SUMMARY OF VIOLATIONS OF LICENSURE LAWS
BY MOTOR VEHICLE DEALERS INCLUDED IN FINDING NO. 7

Description	Violation Code ^b	Dealer 1	Dealer 2	Dealer 3	Dealer 4	Dealer 5
Number of Complaints From Previous Renewal to Most Recent Renewal ^a		8	7	3	2	14
Number of Violations That Resulted From Complaints		13	13	3	4	17
Number of Violations by Code	013	4				2
	024		2			
	031			2		
	046					1
	051					1
	058	1				
	067	1				
	068	2				
	070	5	6	1	2	10
	072					1
	074					1
076		5		2		
091					1	
Most Recent License Renewal Date		4/28/2008	5/6/2009	4/24/2009	5/7/2009	6/12/2009
Number of Complaints From Renewal to Revocation or Suspension ^a		12	12	8	14	9
Number of Violations That Resulted From the Complaints		24	24	11	28	10
Number of Violations by Code	004				2	
	007					1
	009	2				
	013	10				1
	016		1			
	022	2	2			2
	023				2	
	024	6				
	043					1
	069			2		
	070	4	11	7	12	5
076		10	2	12		
License Revocation or Suspension Date		8/25/2008	11/3/2009	8/17/2009	1/18/2010	1/26/2010
Number of Complaints After Revocation or Suspension ^a		33	15	30	14	3
Number of Violations That Resulted From the Complaints		37	18	33	28	3
Number of Violations by Code	013	10				
	030	2				
	055				1	
	069	1			1	
	070	24	9	28	13	3
	076		9	4	13	
091			1			
Records Inspections Performed ^c		7	21	7	4	11
Number of Failed Inspections ^d		5	14	6	4	10

^a We only included valid complaints that resulted in at least one violation (i.e., we excluded complaints that did not result in any violations).
^b See EXHIBIT D for violation code descriptions.
^c Records inspections performed during the two most recent renewal years (i.e., from May 2007 through the revocation date for Dealer 1 and May 2008 through the revocation or suspension date for Dealers 2, 3, 4, and 5).
^d The number of failed records inspections may include those failed records inspections (violation code 024) noted as a result of consumer complaints.

Source: Department FRVIS records as of June 30, 2010.

EXHIBIT F
MANAGEMENT'S RESPONSE

Julie L. Jones
Executive Director

2900 Apalachee Parkway
Tallahassee, Florida 32399-0500
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Rick Scott
Governor

Pam Bondi
Attorney General

Jeff Atwater
Chief Financial Officer

Adam Putnam
Commissioner of Agriculture

January 7, 2011

David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Thank you for the opportunity to respond to the preliminary and tentative findings and recommendations from your operational audit on the Regulation of Motor Dealers and Procurement and Expenditures. We appreciate the efforts of your staff and in accordance with Section 11.45(4)(d), Florida Statutes have included our response to the recommendations made in your report.

The Department of Highway Safety and Motor Vehicles is committed to providing highway safety and security through excellence in service, education and enforcement. The results of your report will be used as part of the Department's continuous efforts to improve operations.

If you have any questions regarding our response, please contact Ronnie Atkins, Audit Director, at (850) 617-3128.

Sincerely,

Julie L. Jones
Executive Director

JLJ/ed
Enclosure

EXHIBIT F
MANAGEMENT'S RESPONSE (CONTINUED)

Department of Highway Safety and Motor Vehicles
Regulation of Motor Vehicle Dealers and Procurement and Expenditures
Operational Audit

Licensing and Regulation of Motor Vehicle Dealers

Finding No. 1: Regulatory Procedures

The Division had not established consistent policies and procedures among the ten Regions within the Bureau of Field Operations (Bureau).

Recommendation: We recommend that the Bureau establish and implement consistent written policies and procedures to be followed by all Regions in their regulation of motor vehicle dealers in order to promote the consistency and efficiency of the Bureau's operations and consistent and fair treatments of consumers and motor vehicle dealers.

Response: We concur with the recommendation. The Bureau has developed a procedure requiring field supervisors to conduct unannounced ride-alongs with their compliance examiners twice a year. This procedure will be in effect by January 31, 2011.

The Bureau will issue a directive requiring zone rotation in urban areas where it can be accomplished without detrimentally affecting productivity. Zone rotation cannot be accomplished in some areas due to their large geographic and remote (rural) nature without affecting productivity, increasing travel time for compliance examiners and increasing taxpayer costs.

The Bureau will update Procedure EP-12, Records Inspections, to clearly indicate the frequency of record inspections to be performed for existing licensees and ensure all Regions comply with the procedure.

The requirement to notify headquarters of complaints over 60 days on a bi-weekly basis will be incorporated in the Bureau's Procedure CC-01, Consumer Complaints.

The Bureau's Procedure CC-04, Administrative Actions, is being updated to provide better guidance on when administrative actions should be initiated.

Finding No. 2: Compliance Examiner's Independence

The Bureau had not established policies and procedures to require all compliance examiners to provide, with respect to the motor vehicle dealers under their oversight, periodic disclosures addressing actual and potential conflicts of interest.

Recommendation: We recommend that the Bureau establish and implement written policies and procedures requiring compliance examiners and other Bureau staff who interact with motor vehicle dealers to submit an annual statement disclosing all conflicts of interest or affirming the absence of such impairments. We also recommend that this information be used by Bureau management to schedule compliance examiner assignments in a manner that avoids any actual or potential conflicts of interest.

Response: We concur with the recommendation. The Bureau will develop an independence statement and establish a procedure that requires compliance examiners and other staff that interact with motor vehicle dealers to annually submit the independence statement disclosing all conflicts of interest or affirming the absence of such impairments.

Finding No. 3: Management Reviews

The Bureau did not always perform annual management reviews for all Regions.

Recommendation: We recommend that the Bureau increase its efforts to perform an annual management review for each Region to better monitor the Regions' regulation of motor vehicle dealer licensing.

Response: We concur with the recommendation. Management reviews of the five regional offices located in the South District were not conducted due to vacancies and travel restrictions. However, the Program Manager position for the South District will be filled, effective January 2011, and management

EXHIBIT F
MANAGEMENT'S RESPONSE (CONTINUED)

Department of Highway Safety and Motor Vehicles
Regulation of Motor Vehicle Dealers and Procurement and Expenditures
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reviews will then be scheduled. In the future, the Bureau will ensure management reviews are performed on all regions on an annual basis.

Finding No. 4: Dealer Records Inspections Reports

The Division did not always adequately complete records inspection reports or timely follow-up on failed records inspections.

Recommendation: The Division should enhance its procedures to ensure that supervisors review Reports for adequate completion and documentation and monitor the timely follow-up of failed records inspections.

Response: We concur with the recommendation. The Bureau will update Procedure EP-12, Records Inspections, to enhance requirements for supervisory review of completed record inspection reports and monitoring timeliness of follow-up inspections. The procedure will clarify the number of inspections each compliance examiner should perform and when a follow-up inspection should be conducted. The procedure will also clarify that the report should document any deviations from the procedure, including an explanation for selecting fewer than five vehicles, and that certain transaction reports must be obtained prior to the inspection.

Finding No. 5: Selection and Performance of Dealer Records Inspections

The Division did not adequately plan or perform records inspections of motor vehicle dealers. Further, the Division's rationale for selecting dealers for records inspections was not adequately documented.

Recommendation: We recommend that the Division provide specific guidance to the Regional Offices relating to the selection of new and existing dealers for routine records inspections. The Division should also consider establishing a uniform risk-based methodology for planning, performing, and monitoring routine records inspections.

Response: We concur with the recommendation. The Bureau will update Procedure EP-12, Records Inspections, to clarify the definition and elements of a routine record inspection, selection of dealers, the requirements of a follow-up inspection and tracking planned and performed inspections. A risk based approach for the selection of dealers to audit and the frequency of audits will be considered when updating the procedure. When the procedure is updated, the Regional Offices will be notified of the changes.

Finding No. 6: Surety Bond and Garage Liability Insurance

The Department did not timely suspend motor vehicle dealer licenses for the dealer's failure to maintain the required surety bond or garage liability insurance.

Recommendation: We recommend that the Department enhance its procedures to ensure immediate suspension of motor vehicle dealer licenses when a surety bond or garage liability insurance is canceled or expired.

Response: We concur with the recommendation. The Bureau agrees that in the interest of consumer protection that an Emergency Suspension Order (ESO) should be processed as expeditiously as possible. However, we believe it is prudent to ensure that the dealer or licensee is factually non-compliant prior to issuing an ESO. In the past, some cancellation letters were sent in error after dealers had reinstated surety bond or garage liability insurance coverage.

We will review and enhance procedures where necessary to ensure quick action. Since an ESO effectively closes a business, an ESO is a severe action and should not be utilized until we are confident the business is non-compliant. We believe one of our first responsibilities is to prove non-compliance with a statutory requirement before taking an adverse action with a business.

EXHIBIT F
MANAGEMENT'S RESPONSE (CONTINUED)

Department of Highway Safety and Motor Vehicles
Regulation of Motor Vehicle Dealers and Procurement and Expenditures
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Finding No. 7: Administrative Actions

The Department did not always take timely and effective administrative actions against motor vehicle dealers with frequent and severe violations.

Recommendation: We recommend that the Department be more proactive in taking timely and effective administrative actions against motor vehicle dealers for frequent and severe violations.

Response: We concur with the recommendation. The Bureau will emphasize the importance of timely and effective action against dealers with frequent and severe violations and will investigate the functionality of a process to periodically review dealers with an extensive history of violation.

If the case revolves around such serious violations that, to allow the dealer to continue in business while awaiting a hearing on the charges may be detrimental to the welfare of the public, the administrative complaint may be accompanied by an Order of Emergency Suspension that immediately suspends the dealer's right to do business, pending the outcome of a hearing and the issuance of a final order. Orders of Emergency Suspension are issued only in cases where allowing a dealer to remain in operation may cause irreparable harm (loss of money) to the public who may continue to purchase vehicles from the dealer. Most such cases involve fraudulent practices.

The voluntary revocation process is the most expeditious way to cancel a dealer's license and prevent further harm to consumers. This revocation is immediate and no further administrative action or legally required notices are necessary. The Department considers a Voluntary Revocation of License to hold the same weight as a license revoked via the administrative process.

The Bureau attempts to use proactive measures in monitoring dealers including record inspections, educational workshops, industry communications and dealer alerts. However, when there has been an allegation of non-compliance that alleges financial harm, such as a lien not paid, those allegations are processed on a priority basis and in an expeditious manner. In cases where the allegations are technical violations, such as failure to register a vehicle in a timely manner, the Bureau works with both parties to resolve in a compliant manner as it is in the best interest of both parties.

Procurement and Expenditures

Finding No. 8: Legal Review and Approval for Procurements

The Department lacked internal controls to reasonably ensure the legal review and approval for all contractual services contracts of \$50,000 or more.

Recommendation: The Department should enhance its internal controls to ensure that, prior to contract execution, legal review and approvals are obtained for all contractual services contracts (including contracts processed through MyFloridaMarketPlace (MFMP)) of \$50,000 or more.

Response: We concur with the recommendation. The Department has always been diligent about having contractual service contracts in excess of Category Three (now \$65,000) processed outside of MFMP reviewed by the Legal Office. To ensure further compliance with Section 287.057(18), Florida Statutes, all contractual service contracts in excess of Category Three (\$65,000) that are processed through MFMP now have an appropriate member of the Department's Legal Office added to the approval flow for review and approval of the contract prior to execution of the Direct Order.

Finding No. 9: Invoices With Available Discounts

The Department did not always take available discounts when processing invoices for payment.

Recommendation: The Department should consider reviewing the payments made to other vendors offering discounts and verify that all discounts have been taken.

EXHIBIT F
MANAGEMENT'S RESPONSE (CONTINUED)

Department of Highway Safety and Motor Vehicles
Regulation of Motor Vehicle Dealers and Procurement and Expenditures
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Response: We concur with the recommendation. The Department is in the process of determining other vendors who offer discounts and will subsequently review payments made to ensure any applicable discounts were taken.

Finding No. 10: Fees Charged for Bank Services

The Department did not always verify fees charged on invoices for bank services.

Recommendation: The Department should verify the accuracy of bank service fees prior to payment.

Response: We concur with the recommendation. In accordance with our written procedures, the Department is now verifying the accuracy of bank service fees on invoices prior to payment.

Additional Matters

Finding No. 11: Cancellation of Purchasing Cards

The Department did not ensure that purchasing cards were timely canceled upon a cardholder's separation from the Department.

Recommendation: We recommend that the Department continue its efforts to enhance its procedures for routine identification of terminated employees to ensure the timely cancellation or deactivation of purchasing cards upon a cardholder's separation from the Department.

Response: We concur with the recommendation. After the positive review of our purchasing card program by the Department's Office of Inspector General, we used the recommendations to further improve our purchasing card program. In addition to revising internal guidelines and conducting training courses on various topics such as the proper collection and return of the purchasing card to the Purchasing Card Program Administrator, a new on-line personnel alert system was developed and recently implemented. This new system, which was developed in conjunction with the Bureau of Personnel Services, provides the Purchasing Card Program Administrator with immediate notification of employee separation from the Department. These new measures will ensure the timely cancellation of Departmental purchasing cards and continued success of the program.

Finding No. 12: FLAIR Access

The Department did not timely remove Florida Accounting Information Resource Subsystem (FLAIR) user access for terminated employees.

Recommendation: Department staff should continue efforts to enhance Department procedures for routine identification of terminated employees to ensure that the FLAIR access privileges are timely removed.

Response: We concur with the recommendation. This finding states that effective April 21, 2010, the Department's internal procedures were updated to require notification be made via email to the FLAIR access control custodian within 24 hours of an employee's access need changing. To date, this procedural modification is helping to ensure FLAIR access is timely removed and integrity of FLAIR at the Department is maintained. We will continue to monitor the effectiveness of this procedure.

Finding No. 13: Security Awareness Training

The Department did not provide ongoing security awareness training to its employees.

Recommendation: The Department should continue its efforts to improve the ongoing security awareness training program.

EXHIBIT F
MANAGEMENT'S RESPONSE (CONTINUED)

Department of Highway Safety and Motor Vehicles
Regulation of Motor Vehicle Dealers and Procurement and Expenditures
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Response: The Department has produced and published a security awareness training module that is part of our learning curriculum. This module is available through our on-line training system iLearn and is assigned to each user annually as a training requirement. It is also assigned to new members when they join the Department. Once assigned, the member has 30 days to complete the training. Those that have not completed the training will receive email reminders along with their supervisor indicating their need to complete the training. The new training module for security awareness was assigned to all employees beginning July 1, 2010. As of December 13, 2010, 4,034 members have completed the training program (88.52 percent). Another improvement to our security awareness training process is the reporting capability. Reports are available to show the progress of each member, including who has taken the training as well as the date completed. It also shows members who have not taken the annual training.