



**REPORT OF
THE
STATE AUDITOR**

License Plate Management System

**Performance Audit
July 2002**

**LEGISLATIVE AUDIT COMMITTEE
2002 MEMBERS**

Senator Jack Taylor
Chairman

Senator Ron Tupa
Vice-Chairman

Senator Norma Anderson
Representative Fran Coleman
Representative Glenn Scott
Senator Stephanie Takis
Representative Val Vigil
Representative Tambor Williams

Office of the State Auditor Staff

Joanne Hill
State Auditor

Larry Gupton
Deputy State Auditor

Heather Sanchez
Dana Harris
Claire Brooker
Wendy Wilson
Legislative Auditors



STATE OF COLORADO

Joanne Hill, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
(303) 869-2800
FAX(303) 869-3060

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

June 25, 2002

Members of the Legislative Audit Committee:

This report contains the results of the performance audit of License Plate Management System. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Revenue, the Department of Corrections, and the Association of County Clerks.

TABLE OF CONTENTS

	PAGE
REPORT SUMMARY	1
Recommendation Locator	5
COLORADO LICENSE PLATE DISTRIBUTION	9
FINDINGS AND RECOMMENDATIONS	
CHAPTER 1. LICENSE PLATE ORDER MANAGEMENT	13
Establish Accurate Inventory of License Plates	13
Establish Inventory Parameters	18
Determine Need for Inventory Redistribution	19
Establish Controls Over Ordering System	21
Automate Order Confirmation	24
Establish Standards for Production Lead Time	26
CHAPTER 2. RECEIVING AND BILLING MANAGEMENT	29
Improve Receiving Controls	29
Reconcile Orders to Shipments	31
Establish Controls Over Spending	33

	PAGE
CHAPTER 3. SYSTEM ISSUES	35
Consider Direct Purchase of License Plates	35
Consider Cash Funding Specialty Plates	36
Consider Changes In Tab Production and Distrubution	37



**STATE OF COLORADO
OFFICE OF THE STATE AUDITOR**

REPORT SUMMARY

**JOANNE HILL, CPA
State Auditor**

**License Plate Management System
Performance Audit
July 2002**

Authority, Purpose, Scope

This performance audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct performance audits of all departments, institutions, and agencies of state government. The audit focused on the State's processes for ordering, producing, and distributing license plates. As part of our audit, we interviewed representatives from the Motor Vehicle Business Group, the Division of Correctional Industries, the Association of County Clerks, the State Controller's Office, the Office of State Planning and Budgeting, and the Joint Budget Committee. In addition, we reviewed license plate and tab orders placed by the Motor Vehicle Business Group, license plate and tab shipments produced by Correctional Industries as well as the information technology programs which track license plate inventory maintained by the Motor Vehicle Business Group. We conducted a survey of county clerk representatives to evaluate inventory levels and determine satisfaction with the current license plate process. The audit work, performed from January to June 2002, was conducted in accordance with generally accepted governmental auditing standards.

We gratefully acknowledge the assistance and cooperation extended by management and staff at the Department of Revenue, the Department of Corrections and individual county clerk representatives.

Overview

Colorado law requires that all vehicles have license plates and validating tabs as proof that citizens have paid required taxes and fees on their vehicles. There are approximately four million registered vehicles in the State of Colorado that require either a license plate and/or renewal tab each year. Colorado presently has 88 different types of license plates. Twenty-seven types of license plates are limited-issue such as those for members of Congress, members of the General Assembly, automobile manufacturers, Colorado State Patrol vehicles, and RTD vehicles. The remaining 61 types of license plates are available to the general public. These include the standard green and white plates and a variety of specialty plates. Specialty plates for an additional \$25 include personalized plates as well as those that honor the military, special interests, and college alumni. Month and year validating tabs located on the license plate indicate that the year's registration fees have been paid. The process of ordering, producing, and distributing license plates, tabs, and related items to citizens involves three Colorado entities: the Department of Revenue's Motor Vehicle Business Group (Business Group); the elected county clerks from the 64 counties; and the Division of Correctional Industries, within the Department of Corrections.

For further information on this report, contact the Office of the State Auditor (303) 869-2800.

Findings and Recommendations

Our audit identified the following areas for improvement:

- **Control over license plate inventories.** We found that there is not an accurate statewide inventory of license plates. While the Business Group has developed a statewide inventory system, known as the Plate Inventory Program (PIP), the system's lack of controls limits its usefulness. For example, during the period examined we identified about \$600,000 worth of license plates that were not posted by Correctional Industries to the inventory. The errors associated with the postings could have been detected had there been adequate reconciliation and review procedures in place. We also found the failure to properly record license plate transfers between counties contributed to an inaccurate inventory. Additionally, programming errors within the Plate Inventory Program compromise the integrity of the inventory information. The Department of Revenue's Information Technology staff is currently in the process of validating PIP's information.
- **Parameters for Inventory.** The Business Group has not established need levels for each type of plate for each county. Consequently, some counties have an excess supply of certain license plates, while others need inventory. Working with the counties, the Business Group needs to establish a reasonable on-hand inventory calculation for each county.
- **Processes for Placing Orders.** We reviewed the Business Group's system for ordering license plates and other related items. We also reviewed the order documentation maintained by the Business Group. We found several problems with the documentation including lack of a standardized format for placing and confirming orders, lack of a serial number ordering system, mathematical errors, missing information and piecemeal sources for license plate orders. Incomplete and inconsistent documentation makes it difficult for the Business Group to determine if they received what was ordered and paid for only what was ordered.
- **Reconciling Orders to Shipments.** In Fiscal Year 2002 the Business Group began reconciling orders submitted with billing invoices received from Correctional Industries. The reconciliation shows several orders as incomplete as well as orders that have been over-filled. We compared the Business Group's reconciliation to the documentation maintained by Correctional Industries and noted that the information does not match. The Business Group's reconciliation does not reflect changed orders, lists orders twice and contains several mathematical errors. While reviewing the reconciliation we also found that Correctional Industries invoices often do not contain the Business Group's order number. This makes it difficult to match a delivery to an order. As a result, several orders are

incorrectly listed as either incomplete or show that Correctional Industries produced more than was requested.

- **Controls Over the License Plate Budget.** We reviewed the way the Business Group tracks the license plate appropriation and found the Business Group does not have a method to determine the current status of the license plate appropriation. For example, in May 2002, the Business Group estimated an available appropriation of up to \$2.4 million and placed corresponding orders with Correctional Industries. Some of these orders as well as previously submitted orders had to be cancelled or revised, in part, because Correctional Industries estimated that the license plate orders exceeded the available appropriation by \$260,000. The Business Group relies on Correctional Industries for up-to-date information on the available appropriation because it does not encumber funds through the COFRS system when placing orders. The Business Group needs to encumber funds through the COFRS system when placing orders and develop an internal system to track the expenditure of the appropriation.

In addition to the processes and controls identified above, we also discussed system alternatives with representatives of the various agencies involved in the production and distribution of license plates. These include consideration of 1) allowing counties to order license plates and related items directly from Correctional Industries; 2) cash funding specialty plates; and 3) changing the production and distribution of license plate tabs.

Our recommendations and the responses from the Department of Revenue, the Department of Corrections, and the Association of County Clerks can be found in the Recommendation Locator on pages five through seven.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	16	Ensure the accuracy of the Plate Inventory Program by conducting ongoing validation of the system, establishing input controls, providing training, identifying and correcting programming errors, and expanding capabilities of the system	Department of Revenue	Agree	December 2002 and ongoing
			Department of Corrections	Agree	August 2002
			Association of County Clerks	Agree	Completed by May 31, 2003
2	20	Establish appropriate inventory parameters in the Plate Inventory Program and evaluate plate redistribution.	Department of Revenue	Agree	July 1, 2003
			Department of Corrections	Agree	When deemed necessary by Plate Committee
			Association of County Clerks	Agree	January 1, 2003
3	23	Establish controls over the license plate and tab ordering system.	Department of Revenue	Agree	October 2002

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
4	25	Develop an electronic ordering system that provides confirmation documentation.	Department of Corrections	Agree	August 2002
5	26	Establish production standards.	Department of Revenue	Agree	Ongoing
			Department of Corrections	Agree	July 2002
6	30	Develop standard procedures for receiving shipments of license plates.	Department of Revenue	Agree	August 2002
			Association of County Clerks	Agree	Beginning immediately
7	32	Reconcile orders to billing invoices.	Department of Revenue	Agree	August 2002
			Department of Corrections	Agree	August 2002
8	34	Encumber funds through the Colorado Financial Reporting System and track status of appropriation.	Department of Revenue	Agree	April 2002

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
9	38	Explore options for improving current license plate system.	Department of Revenue	Partially Agree	Ongoing

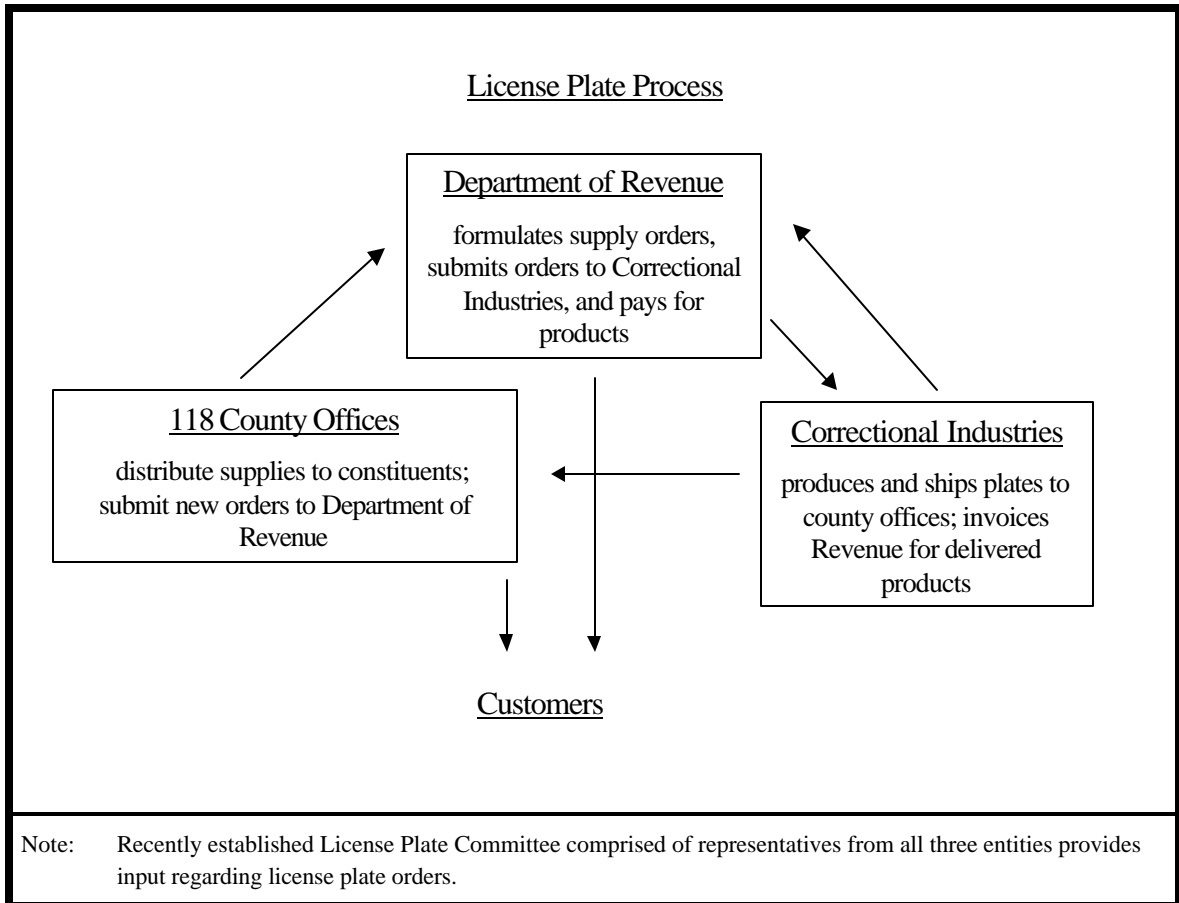
Colorado License Plate Distribution

Background

Colorado law requires that all vehicles have license plates and validating tabs as proof that citizens have paid required taxes and fees on their vehicles. There are approximately four million registered vehicles in the state of Colorado that require either a license plate and/or renewal tab each year. Colorado presently has 88 different types of license plates. Twenty-seven types of license plates are limited-issue such as those for members of Congress, members of the General Assembly, automobile manufacturers, Colorado State Patrol vehicles, and RTD vehicles. The remaining 61 types of license plates are available to the general public. These include the standard green and white plates and a variety of specialty plates. Specialty plates for an additional \$25 include personalized plates as well as those that honor the military, special interests, and college alumni. Month and year validating tabs located on the license plate indicate that the year's registration fees have been paid.

The process of ordering, producing, and distributing license plates, tabs, and related items to citizens involves three Colorado entities: the Department of Revenue's Motor Vehicle Business Group (Business Group); the elected county clerks from the 64 counties; and the Division of Correctional Industries, within the Department of Corrections. The Business Group maintains the responsibility of making funding requests, managing the appropriation and ensuring that an adequate number of license plates exist in the State. This includes placing license plate orders and verifying that all items ordered are in fact delivered. The county clerks, acting as agents for the Business Group, register vehicles and disseminate plates and tabs to citizens. In addition, county clerks provide the Business Group with the number and types of license plates they require. The Division of Correctional Industries manufactures the license plates and related items for the Business Group and delivers them to county clerk offices.

Recently the Motor Vehicle Business Group established the License Plate Committee, which is comprised of representatives from all three entities. The purpose of the License Plate Committee is to develop orders for license plates and related items. These orders are given to Motor Vehicle Business Group staff who review the order before submitting it to Correctional Industries. The following chart depicts how license plates, tabs, and related items are ordered, produced, and delivered:



License Plate Funding

Since Fiscal Year 1997, the General Assembly has appropriated general funds to cover the cost of providing plates for newly titled vehicles and/or vehicles with lost, damaged, or stolen plates. In 1998 the General Assembly passed legislation that requires every registered vehicle in Colorado to obtain a new configuration license plate between January 1, 2002, and June 30, 2004. The re-plate legislation provides the Business Group with extra funding in Fiscal Years 2002 through 2004 from the Highway Users Tax Fund (HUTF) to help purchase the additional license plates required for the mandatory re-plate. The General Assembly recently extended the re-plate deadline through July 1, 2007. In addition, due to budget constraints, in Fiscal Year 2002 the General Assembly replaced some of the general fund appropriation for license plates with money from the Automobile Inspection and Readjustment (AIR) fund. The following table details the funding history for license plates and related items:

Source of Funding License Plate and Related Item Purchases Fiscal Years 1998 through 2003					
Fiscal Year	General Fund	Highway Users Tax Fund	Automobile Inspection and Readjustment Account	Total Appropriation	Total Expenditures
Fiscal Year 1998	\$7,114,714 ¹			\$7,114,714	\$6,506,373
Fiscal Year 1999	\$5,216,960			\$5,216,960	\$5,212,962
Fiscal Year 2000	\$5,216,960			\$5,216,960	\$5,216,931
Fiscal Year 2001	\$7,784,868 ¹			\$7,784,868	\$7,784,867
Fiscal Year 2002	\$4,722,127 ³	\$3,287,703 ¹	\$1,100,000	\$9,109,830 ⁴	\$7,951,048 ²
Fiscal Year 2003	\$4,663,375	\$2,771,911		\$7,435,286	

Source: Colorado Financial Reporting System, Fiscal Year 2002 Long Bill, Fiscal Year 2002 Supplementals, Session Laws of Colorado 2001, and information from the Department of Revenue.

¹ Indicates that amount includes supplemental appropriations.

² Indicates estimated spending totals.

³ Reflects the general fund appropriation at the end of Fiscal Year 2002. The Department originally received a general fund appropriation of \$5.8 million. The General Assembly later replaced \$1.1 million of the general fund appropriation with money from the Automobile Inspection and Readjustment Account.

⁴ The Department had a negative supplemental of just over \$1.2 million of its general fund appropriation for license plates.

County clerks are responsible for collecting the revenue generated from the vehicle registration fees and taxes paid by vehicle owners to obtain plates. The counties retain a small portion of the fees, from \$1 to \$2, depending on the type of license plate purchased, and send the remainder of the fee to the Department of Revenue. For certain types of license plates, the Department forwards approximately \$1.15 per plate to the Colorado State Titling and Registration System (CSTARS) account.

This system maintains a database of titling and registration information on vehicles throughout the State. The remainder of the money is deposited in the Highway Users Tax Fund (HUTF).

Audit Scope

On the basis of concerns expressed by representatives from both the Motor Vehicle Business Group and county clerks, we examined the inventory, ordering, production, funding, and distribution processes for license plates and related items. Differing perceptions exist regarding whether the State has an adequate supply of license plates. This audit reviewed the methods that the Motor Vehicle Business Group, the Division of Correctional Industries, and the individual county clerks use to ensure that an acceptable number of license plates and related items exist to meet the needs of Colorado citizens. We examined the methods used by the Business Group in managing the license plate appropriation including the processes used to track inventory, submit orders, and ensure the receipt of ordered items. In addition, we reviewed the production and shipping methods used by the Division of Correctional Industries.

License Plate Order Management

Chapter 1

Establish Accurate Inventory of License Plates

As part of our audit, we interviewed staff from the Motor Vehicle Business Group (Business Group), Correctional Industries, and representatives from the Association of County Clerks to determine the existing inventory of license plates. We identified a lack of agreement between the three entities regarding the number of license plates on county shelves. County clerks report an inadequate supply of certain types of license plates and express concern that they do not receive the types of license plates they need or want. On the other hand, the Business Group calculates an ample supply of license plates sitting on county shelves. Due to widespread concerns from the three entities, we examined the overall license plate inventory, ordering, production, and distribution process.

To begin, we reviewed the license plate inventory and ordering system the Business Group has in place. We found that it lacks correct information on the numbers or types of license plates and related items that exist on county shelves. Without an accurate up-to-date inventory system, the Business Group cannot track the issuance of license plates and related items. An accurate inventory system is critical to ensure that the counties have an exact count with which to place orders for the number and types of plates that will be in demand.

In July 2001 the Motor Vehicle Business Group initiated the Plate Inventory Program (PIP), which tracks the issuance of license plates by county and by type of plate. PIP is the Business Group's most extensive attempt to develop an accurate inventory system to track the issuance of certain license plates. Ultimately, the Business Group hopes to use PIP to help automate the license plate ordering system. At the time of implementation, the Department of Revenue's Information Technology staff conducted tests to determine if the system was correctly recording information and calculating summary reports. Any errors found during these tests were corrected. However, during the course of our audit, county clerk representatives repeatedly expressed concerns regarding the accuracy of the information in the PIP system. Our audit work examined the validity of those concerns. We identified problems that we believe undermine the accuracy of PIP's information.

Input Controls

As part of the process to track the inventory of license plates and related items, the Motor Vehicle Business Group selected Correctional Industries to input shipment data into the PIP system. Since Correctional Industries produces and ships license plates to all counties, it is the logical entity to provide accurate production data. Correctional Industries is thus responsible for correctly entering all shipments of license plates. Currently, however, Correctional Industries uses a manual process to transfer data from its production system into PIP. When it is ready to ship a license plate order, Correctional Industries staff download the shipping information from the internal computer system onto a computer disc. The staff then manually input the information on the computer disc into another computer that e-mails the information to the Motor Vehicle Business Group detailing the type and number of plates being shipped to each county. The e-mailed information is automatically uploaded into PIP. While Department of Revenue Information Technology staff ensure that all e-mails are correctly uploaded into PIP, they do not have review and reconciliation controls in place to verify that Correctional Industries sends e-mails of all shipments.

We conducted a random sample of shipments sent between July 1, 2001, and April 1, 2002, to ensure that Correctional Industries correctly input all of the information into PIP. We found that the shipping information for three shipments representing almost 345,000 single license plates costing about \$600,000 had not been e-mailed to the Department for inclusion in PIP. As a result, PIP does not contain an accurate record of all license plates sent to the counties after July 1, 2001. This missing information distorts the accuracy of PIP by underestimating the number of license plates shipped to some counties. Although the Motor Vehicle Business Group is responsible for ensuring that Correctional Industries inputs all shipments into PIP, the Business Group currently lacks input controls to verify the information sent by Correctional Industries. Thus, in this instance, the Business Group was unaware until our audit that PIP did not contain these three shipments of license plates.

Another input control issue that affects the accuracy of PIP's inventory count for each county relates to the transfer of plates. The Motor Vehicle Business Group depends on the individual counties to update PIP when they transfer plates to another county. County representatives informed us that plate transfers take place on a regular basis. When one county transfers license plates to another county, the sending county must enter into PIP the numbers of the license plates being transferred and the county receiving those plates. This allows PIP to recognize that those plates have been moved and, therefore, should be removed from the sending county's inventory and be added to the receiving county's inventory. However, we found that several counties did not

register such transfers in PIP. Currently the Motor Vehicle Business Group has no method in place to ensure that counties register plate transfers in PIP. Plate transfers not recorded in PIP ultimately show up on a plate-by-plate basis as the recipient county issues the transferred plates. However, the system has no way of determining how many transferred plates the county received. Therefore, the inventory counts for both the sending and receiving counties remain inaccurate until all transferred plates are issued to citizens. Our survey of county clerks indicates that several of the clerks do not clearly understand their role in maintaining PIP's accuracy, including how to make changes in PIP. We found that the Business Group staff have not provided training to all county clerks on how to use and maintain the PIP information and have not developed controls over the process. A lack of input controls such as review and reconciliation increase the risk of errors and irregularities.

System Integrity

In the fall of 2001 the Motor Vehicle Business Group began to use PIP's information as the basis for some license plate orders. At that time, the Department requested inventory information from the county clerks to determine the total inventory maintained at each county office. While this information was provided, Department Information Technology representatives indicated that the counts could be flawed. The Information Technology staff had concerns regarding the validity of the numbers reported because it was unclear whether the reported numbers reflected single license plates or sets of license plates. Regardless, this information was combined with the inventory information in PIP to determine the on-hand inventory in each county. County clerks then expressed concerns regarding the accuracy of the PIP inventory calculations. In response, beginning in mid-April 2002, the Department of Revenue's Information Technology staff worked with the county clerks to update and validate the PIP inventory count for each county. Through the validation process, the Information Technology staff identified several programming errors that compromise the integrity of PIP's inventory information. Some of the programming errors identified to date either inflate or deflate the county license plate inventory numbers. We discuss the consequences of two of these programming errors below.

On the basis of each county's inventory of plates, the PIP system calculates the number of plates issued and the remaining on-hand inventory to estimate the number of months the inventory will last. The Motor Vehicle Business Group uses the months of inventory calculation to determine the number and types of license plates it will order for each county. Programming errors that lead to a miscalculation of a county's actual months-on-hand inventory could cause the Motor Vehicle Business Group to submit license plate orders that do not meet county needs. For example, due to one

programming error, the PIP system recorded license plate transfers between vehicles as new plate issuances. Therefore, PIP showed that counties had fewer plates in inventory than actually existed. Using this PIP information, the Business Group ordered license plates that the counties might not have needed. In another case, the PIP system did not recognize the issuance of some plates for vehicle transactions manually entered into the Colorado State Titling and Registration System (CSTARS) by county clerks. The PIP information erroneously counted these license plates in the counties' on-hand inventories, even though all of those plates had been issued to citizens. Staff report that identified errors have since been corrected.

Motor Vehicle Business Group staff reported that PIP information was used as the basis for several license plate orders. As a result of these programming errors in PIP, the system miscalculated how long each county's on-hand inventory would last. Once the Information Technology staff correct all the programming errors identified through the recent validation process, the staff should continue to consistently check for errors as a way to ensure that PIP is providing reliable information.

Completeness of Plate Inventory Program

We determined that PIP contains information on only 64 of the 88 license plates available in Colorado. For example, PIP does not contain any information on the issuance of "made-to-order" plates such as personalized plates. In addition, PIP does not track license plate-related items such as tabs and placards, yet these products represent a significant portion of the items ordered by the Business Group and issued by county clerks. For example, in Fiscal Year 2000 the Business Group spent approximately \$1.4 million (26 percent) on tabs and related items. This increased to \$1.6 million (21 percent) in Fiscal Year 2001. Expanding PIP's capacity to track the issuance of all 88 types of license plates as well as tabs and related items would ensure the ability of the Motor Vehicle Business Group to provide accurate inventory and ordering information. If PIP's tracking capacity is not expanded, the Business Group will have to maintain and operate two separate inventory and ordering processes.

Recommendation No. 1:

The Department of Revenue needs to work with the Division of Correctional Industries and the Association of County Clerks to ensure that the Plate Inventory Program contains accurate information by:

- a. Conducting ongoing validation of the system to ensure that its information is accurate.

- b. Establishing input controls that ensure Correctional Industries accurately inputs all shipments into the Plate Inventory Program in a timely manner.
- c. Establishing input controls that ensure counties register all transfers of plates between counties.
- d. Providing initial and ongoing training to all county clerks on how to use the Plate Inventory Program and their role in the maintenance of the accuracy of the inventory information.
- e. Identifying programming errors and correcting them in a timely manner.
- f. Programming the Plate Inventory Program to track license plates, tabs, and other items currently not included in the system.

Department of Revenue Response:

Agree. The Department's plate inventory system, PIP, was implemented less than one-year ago. The audit report does not document the current status of the resolutions already in place, nor does the report identify the ongoing effort between the users to augment and validate the system. For example, the Department requested and received a hand-count inventory of plates on county shelves from 64 counties and 118 offices on November 9, 2001, and subsequently compared the information to what already existed in the PIP system. For lack of series and plate configurations, the Department again requested an input inventory from county shelves in April 2002. Ongoing validation has been a collaborative effort between the License Plate Committee, counties, and Motor Vehicle staff.

Through these efforts, the groups identified PIP programming problems and quantified existing inventory on county shelves. The Department further resolved identified errors within three weeks. MVBG has begun developing and refining a standardized "Inventory Resolution Process" to help identify problems and determine the answers. This process will determine if the problem is procedural, program-related, lack of inventory data (move, damaged, lost) or a training issue. A procedure manual and guide on the PIP system has been developed and delivered to the counties. The Department has verified that all counties have user access to PIP. Additional training initiatives and outreach programs will be implemented by December, 2002; however, validation and error resolution will continue to be an ongoing effort so long as the system exists.

Department of Corrections Response:

Agree The Division of Correctional Industries has developed and will implement by August, 2002 a new production control computer system. The abilities of the software are numerous and will allow the system to communicate directly with the Plate Inventory Program. The Division will work with the Department of Revenue to implement this process.

Association of County Clerks Response:

Agree.

- a. The License Plate Committee (consisting of County members, Department of Revenue members, and a Department of Corrections member) will formalize the validation system at the September 30, 2002, meeting. Initial validation has taken place.
- b. The License Plate Committee will review and recommend a verification shipment process to be used by May 31, 2003. Automated processes for large Counties should be considered.
- c. The License Plate Committee will formalize the registration of transfers of plates between Counties no later than August 5, 2002.
- d. The Association agrees that initial and ongoing training is essential for the success of the Plate Inventory Program. While the Association believes that training is the responsibility of the Department of Revenue, the Association has, in the interim, prepared training materials to assist the Counties in understanding the PIP functions.

At the Department's request, the Association has provided copies of the training materials for its review. Until such time that the Department develops an adequate training plan, the Association will continue to train monitor and mentor Counties with regard to PIP.

Establish Inventory Parameters

As we previously mentioned, since April 2002 the Department's Information Technology staff have been working with county clerks to validate the inventory numbers in the PIP system. As of the end of May 2002, the most recent PIP report

shows approximately 2.1 million single plates on county shelves. We calculated the number of plates that Correctional Industries expects to ship and estimated the number of vehicle transactions that we expect the Motor Vehicle Business Group to conduct prior to the end of Fiscal Year 2002. We determined that there will be approximately 2.5 million single plates on county shelves on June 30, 2002. We estimate these license plates can be used to plate just over 1.4 million vehicles. Our information indicates that 53 percent of the existing license plates are the standard green and white plates and 47 percent are specialty plates. However, without historical data, the Motor Vehicle Business Group cannot determine whether this represents an adequate supply of the types of license plates requested by Colorado citizens.

As noted, the Business Group plans to use the information in PIP to help automate the ordering system. To ensure such a system meets the needs of Colorado counties, the Business Group must establish the proper on-hand inventory for every type of license plate in each county. Currently the Business Group calculates a county's on-hand inventory for each type of plate based on the number of plates shipped to the county minus the number issued since the establishment of PIP in July 2001. County clerk representatives informed us that PIP does not yet have enough data to track seasonal fluctuations. Therefore, PIP may not provide accurate information on the correct inventory to meet seasonal demands for plates such as motorcycles and trailers. These types of license plates tend to have much higher issuance rates in the late spring and summer months. In addition, insufficient data make it impossible to establish need and use levels for each county. Certain plate types are issued faster in some counties than others. An adequate on-hand inventory for a certain type of plate in one county may be 10 plates while for another county it may be 100 plates.

By working together to estimate and establish a reasonable on-hand inventory for each county, the Motor Vehicle Business Group and the License Plate Committee can create a benchmark for future orders. This will ensure that counties have an accurate inventory of license plates on their shelves in the future.

Determine Need for Inventory Redistribution

The most recent information from PIP indicates that many counties have over a 12-month supply of certain types of license plates. Our analysis shows that over 84 percent of counties have between 20 and 39 types of license plates, each with at least a 12-month inventory on hand. Once the Motor Vehicle Business Group and the License Plate Committee decide on a reasonable inventory for each county, the Business Group and the counties will be able to develop a system for redistributing plates. The Division of Correctional Industries has offered, on a one-time basis, to collect any extra plates that currently exist at counties, return them to Correctional

Industries, and redistribute the license plates to counties that need them. Correctional Industries staff stated that they would not charge for this one-time redistribution, since it would be accomplished through the regular delivery schedule. This would in turn allow the Business Group the time to put its own system in place to redistribute plates whenever necessary in the future.

Recommendation No. 2:

The Department of Revenue should work with the Division of Correctional Industries and the Association of County Clerks to ensure that the counties have on hand the number and types of license plates needed by:

- a. Establishing appropriate inventory parameters for every plate type.
- b. Determining if a redistribution of license plates is necessary and then creating an efficient redistribution process that maintains the integrity of the information in the Plate Inventory Program (PIP).

Department of Revenue Response:

Agree. The Department initially established appropriate inventory parameters for the number of plates on county shelves. The established guideline currently is three-months of inventory of any one plate type, allowing for the manufacture and distribution time frame of Correctional Industries. Due to the shortage of particular plates and seasonal demand, new inventory levels need to be set by the License Plate Committee. It is important to note that although statute allows plate funds to be expended on the manufacture and distribution of license plates, the distribution/delivery cost is built into the plate cost. To date, the Department has never spent plate funds to “redistribute” plates. We will seek guidance from the legislature and JBC to determine if this is a permissible use of the license plate appropriations. The License Plate Committee will be determining if and to what extent a plate redistribution is necessary. Upon approval, and once a determination is made as to the number of plates and cost of redistribution, the Department will prepare a supplemental request and/or decision item, if necessary.

Department of Corrections Response:

Agree. The Department of Corrections has offered on a one-time basis to pick up all excess plates in the counties and redistribute them according to a schedule supplied by the Motor Vehicle Business Group.

Association of County Clerks Response:

Agree. The License Plate Committee will begin work on establishing appropriate inventory parameters at the July 24, 2002, meeting. The final work will be completed by the December 2002 conference of the County Clerk and Recorders. The Association's members on the Plate Committee recommend that a redistribution of license plates happen as soon as possible, but no later than January 1, 2003. Currently the Counties are bearing the burden of any redistribution of plates. The Association believes that Counties should be reimbursed for the expense of moving these plates from the beginning of Fiscal Year 2002 (July 1, 2001). The Plate Committee will determine if the one-time plate pick-up by the Department of Corrections is a viable option.

Establish Controls Over Ordering System

We reviewed the Motor Vehicle Business Group's system for ordering license plates and related items. At our request, the Business Group provided copies of all its documentation for license plate orders. We were given a box containing license plate and tab orders dating back to 1986. Not only was the documentation disorganized and incomplete, but we could not determine if documents in the box represented actual orders placed by the Business Group. We focused our review on documentation supporting the Business Group's Fiscal Year 2002 orders. The documentation indicates that the Business Group submitted approximately 77 orders for a total of almost \$7.3 million. These orders represented approximately 3.5 million license plates of different types and 15 million different tabs and other related items. However, we found that a lack of controls over the ordering process impairs the Business Group's ability to know exactly what it ordered for each county as well as the basis for those orders.

We identified several problems with the order documentation maintained by the Motor Vehicle Business Group:

- **Standardized Format.** The Business Group uses varying formats, including spreadsheets, typed lists, handwritten notes, and/or e-mails. The use of different formats makes it difficult for Correctional Industries and Business Group staff to determine which documents represent actual orders and also limits the Business Group's ability to track the orders.
- **Confirmations.** Business Group staff reported that they submit orders to Correctional Industries via fax. We found that over 20 percent of the orders the Business Group staff reported submitting to Correctional Industries did not have corresponding fax confirmation sheets. As a result, we could not confirm which documents represented actual orders submitted to Correctional Industries and which represented internal working documents.
- **Serial Order Numbers.** The Motor Vehicle Business Group's orders were not serially numbered. In the past year the Business Group staff used at least four methods to identify orders. Some orders used the date range that the order was intended to fill. Other orders were identified by the day of the year the order was placed. For instance, order number 255 means that the order was placed on September 12, 2001, the 255th day of the year. Some orders were randomly marked with order numbers that do not fit any previous numeric systems. The most recent system used by the Business Group lists the fiscal year in which the order was placed followed by a sequential order number. The inconsistent numbering made it difficult to determine if documentation existed for all orders.
- **Accuracy Review.** Several orders contained mathematical errors. While we did not identify large discrepancies, we noted errors in both the number of plates and tabs ordered and total dollar amounts for each order. Correctional Industries and Business Group staff concurred that several original orders were later revised to either reduce or increase the number of items ordered. The documentation provided by the Business Group did not reflect these revisions.
- **Missing Documentation.** The Colorado Financial Reporting System (COFRS) shows that the Motor Vehicle Business Group consistently spends almost all of its license plate appropriation. However, the license plate order documentation provided by the Business Group did not total the expenditure amount listed in COFRS. For example, we reviewed the Motor Vehicle Business Group's documentation of orders for both Fiscal Year 2000 and 2001. In Fiscal Year 2001, we found copies of orders totaling \$7,243,856. COFRS shows expenditures of \$7,784,867, or approximately \$540,000 more than can be supported through existing documentation. Additionally, the

Business Group does not have documentation for \$234,000 in Fiscal Year 2000 orders.

- **Differing Sources.** The Business Group does not use a consistent source to support its license plate orders. In the last year, the Business Group staff based orders on five different sources of information including bi-annual surveys of county needs, historical transaction data, county "wish lists," "checkbook" limitations, and inventory information from the Plate Inventory Program (PIP). In some cases, Business Group staff could identify which orders were based on which sources of information. We could not, however, always match the numbers contained in the order to the underlying source of information.

In summary, the Business Group staff cannot determine either what was ordered or whether the ordered items meet county needs. As a result, the Business Group cannot ensure that Correctional Industries produced the correct items or billed the proper amount. Once again, the lack of controls increases the risks to the State and counties that errors and irregularities can occur. Only by establishing controls over its ordering system can the Business Group ensure the staff's ability to determine what has been ordered and that documentation of all orders is retained. In addition, the Motor Vehicle Business Group and the counties must gather population and historical vehicle registration data. These data will then serve as the basis for the Business Group to establish a reliable ordering process.

Recommendation No. 3:

The Department of Revenue should establish controls over its license plate and tab ordering system to ensure that it can track all orders submitted to Correctional Industries. Controls should include:

- a. Developing a standard ordering format.
- b. Obtaining confirmation of all orders from Correctional Industries.
- c. Establishing a serial order number system.
- d. Reviewing orders for accuracy.
- e. Establishing a consistent source for orders.

Department of Revenue Response:

Agree.

- a. DOR will develop with considerable input from DOC and approval from the License Plate Committee a standard format. Expected time frame is August 2002
- b. Our goal is to receive written confirmation within 24 hours after the order is placed. We will work with DOC on this. Timeframe is August 2002.
- c. This has already been partially implemented and discussed in the License Plate Committee. DOC has agreed to use the numbering system that has been in place at MVBG since October 2001. This begins with the number of the fiscal year, followed by a numeric sequence, for example the first order for FY 03 will be 03-001.
- d. This is a joint responsibility between DOR and DOC staff. Errors have occurred in the past for a variety of reasons. Errors have occurred because the wrong pricing was listed for a particular item or the wrong quantity was ordered. A consistent process for this type of review will be implemented by August 2002.
- e. This is a process that will be refined by the License Plate Committee. It has been suggested that the committee use PIP data, combined with County Clerk input, to develop a consistent ordering process for each county. Once approved by the committee, the order will then be placed by MVBG staff. This has been partially implemented. The time line for full implementation is October 2002.

Automate Order Confirmation

Correctional Industries is in the process of developing a Web-based electronic ordering system that will allow the Motor Vehicle Business Group to submit its license plate orders electronically. Placing orders electronically should help the Business Group staff track their orders and ensure receipt of all ordered items. Correctional Industries anticipates that the system will be operational by August 1, 2002.

In April 2002 Correctional Industries staff provided us with a demonstration of the electronic ordering system. As demonstrated, the system will provide the Business Group with an e-mail confirmation listing the items ordered and the calculated cost. It will also automatically assign an order number that can be used by both the Business Group and Correctional Industries to track orders. Correctional Industries representatives commented that, in addition, the system will document all revisions and provide the Business Group with confirmation of any revised order. The confirmation information provided through this electronic system will allow Business Group staff to compare their orders with what Correctional Industries plans to produce. By retaining these confirmations, the Business Group staff can document what was actually ordered. A common order number will allow the Business Group to match the order to the billing invoice received once Correctional Industries completes production.

As noted, we found that the Business Group could not provide documentation of all license plate orders and therefore could not ensure that Correctional Industries produced the proper items or billed the correct amount. Correctional Industries' new electronic ordering system should provide the Business Group with confirmation documentation that will improve its ability to track license plate orders.

Recommendation No. 4:

The Division of Correctional Industries should ensure that its new electronic ordering system provides confirmation documentation of all license plate orders.

Department of Corrections Response:

Agree. As stated in response number one, the Division of Correctional Industries has developed a new computer production control system. One of the abilities of this new software is to accept orders electronically from the Internet. Ordering screens have already been developed for the Department of Revenue and members of the Association of County Clerks to allow them to order directly from the Division. Regardless of who places the order, they will receive confirmation of the order and quantities of items ordered.

Establish Standards for Production Lead Time

Another concern of county clerk representatives involved timely receipt of needed items. County representatives explained that the frequent movement of license plates among counties addresses the lack of available inventory. As part of our audit, we reviewed Correctional Industries' processes for producing license plates as well as the time deadlines imposed by the Motor Vehicle Business Group when it placed orders. We found that some delays in shipments to the counties are caused by inadequate lead time for production. The Business Group and Correctional Industries include the production time lines in their annual Memorandum of Understanding (MOU). The MOU states that both parties will comply with the ordering and production time lines. However, neither party seems to completely fulfill the MOU requirements.

In Fiscal Year 2002 the Business Group placed orders on an inconsistent basis, sometimes placing several orders within a few weeks and at other times going months without placing an order. This makes it difficult for Correctional Industries to schedule its production line and can result in a less efficient process. License plates and other items produced by Correctional Industries require the purchase of raw material from outside sources. Submitting orders in conjunction with established standards allows Correctional Industries to plan its purchase of production materials. This in turn ensures that the materials are available to produce the plates and tabs in a timely manner.

Correctional Industries and the Business Group need to develop order and production standards including agreed upon lead times and order quantities. If, for example, the Business Group submitted less frequent but larger orders that Correctional Industries could produce and ship on a staggered basis, it would create shorter lead times and a more consistent production schedule. Adherence to the order production standards would then be mandatory so that the counties would be assured of a consistent on-hand inventory of license plates and related items.

Recommendation No. 5:

The Department of Revenue and the Division of Correctional Industries should work together to establish ordering and production standards that ensure consistent production and timely delivery.

Department of Revenue Response:

Agree. Correctional Industries has supplied a document to MVBG staff outlining recommended timelines for placing orders. This will be adhered to by MVBG, DOC and the License Plate Committee when formulating and placing orders.

Department of Corrections Response:

Agree. The Division of Correctional Industries averages 20,000 regular plates and 4,000 specialty plates per day over the course of an order. It is the Division's intention to include this production figure in the Memorandum of Understanding with the Motor Vehicle Business Group so that all parties understand the current production capabilities of the Division and can better estimate the production time required to complete an order. In addition, as in the current MOU, notation will be made to the number of days needed to compile the order before production can begin.

Receiving and Billing Management

Chapter 2

Improve Receiving Controls

Submitting orders is only one of the Motor Vehicle Business Group's responsibilities for ensuring an adequate supply of license plates. The Business Group must also have appropriate receiving and billing controls that guarantee Correctional Industries produces everything ordered and charges the proper amount.

Currently Correctional Industries notifies the Motor Vehicle Business Group (Business Group) of upcoming shipments of license plates. The Business Group then relays the shipping schedules to the individual counties that will be receiving the plates. Although we found Correctional Industries regularly notifies the Business Group of pending shipments, some counties reported that they do not always receive notification of license plate shipments from the Motor Vehicle Business Group. Notifying county representatives of upcoming shipments can ensure that shipments are accepted, verified, and logged into the county inventories.

When preparing an actual shipment, Correctional Industries attaches a label to each box itemizing the contents of the box. It also provides each county with a delivery receipt detailing the contents of all boxes shipped to the county. Counties sign the delivery receipt, verifying that they received all of the shipped items. Correctional Industries then uses the signed receipts as the basis for the billing invoices submitted to the Business Group. Because of concerns from counties regarding the completeness of shipments, we reviewed a random sample of box labels and delivery receipts to ensure that they accurately reflected the contents of the boxes. In all cases within our sample, the label and receipt matched the contents of the box. We also disassembled several large shipments and found that the boxes of license plates ready to be shipped were correctly labeled and contained the correct number and types of license plates.

We also tested controls over the receiving functions at the counties and the Motor Vehicle Business Group. We found that there are a lack of statewide procedures for verifying shipments. Therefore, the Business Group cannot ensure that all of the shipments to the counties and the Business Group have been appropriately received and recorded in PIP. Counties can receive large shipments of license plates. In the interest of time, counties count the number of boxes in comparison to the number of boxes

detailed on the delivery receipts. Contents of the boxes are not typically checked for accuracy until the box is opened and used for the issuance of plates. This can be several months after the county received the box. Since the Business Group pays based on the signed delivery receipt, counties and the Motor Vehicle Business Group should at the minimum cross-check the information regarding the number of boxes and series numbers with the delivery receipt and with their inventory information in PIP. Any discrepancies should be immediately reported to the Motor Vehicle Business Group and/or Correctional Industries. Further counties should notify both entities if, when they open boxes, they find errors. The Business Group should also compare the information on the delivery receipt with the order it submitted to Correctional Industries and establish a process for notifying Correctional Industries when discrepancies are found. This will minimize the risk of errors and irregularities.

Recommendation No. 6:

The Department of Revenue should develop procedures for receiving shipments of license plates and related items. These should include but not be limited to:

- a. Verifying the number of boxes against the delivery receipt.
- b. Cross-checking the delivery receipt with the information in the Plate Inventory Program (PIP).
- c. Notifying the Motor Vehicle Business Group and/or the Division of Correctional Industries of any discrepancies.

Department of Revenue Response:

Agree. Partially Implemented. The success of these continued efforts is contingent upon the participation of all parties involved. MVBG will set forth a written policy for checking-in delivered orders and distribute this policy to the counties by August 2002.

Association of County Clerks Response:

Agree. Standard procedures for receiving shipments of license plates and related items are lacking. For the success of PIP, standard procedures are absolutely necessary. The Association would encourage the Department of Revenue to work

with the License Plate Committee to establish uniform standards statewide. The Association recommends that the process be automated.

Reconcile Orders to Shipments

In Fiscal Year 2002 the Motor Vehicle Business Group began reconciling orders submitted to billing invoices received from Correctional Industries. Business Group staff track orders by order number, items ordered, and total cost. As the Business Group receives billing invoices from Correctional Industries, staff reconcile them to submitted orders. As of March 2002, Business Group records show numerous outstanding orders including some that had been placed almost a year previously. In addition, records indicate that Correctional Industries actually produced more items than requested for some orders.

We compared the Business Group's documentation with order, shipping, and billing information maintained by Correctional Industries to determine its accuracy. We found that the Business Group's reconciliation does not match the documentation maintained by Correctional Industries. We identified documentation differences in the following areas:

- **Revised Orders.** We found that the Motor Vehicle Business Group's reconciliation includes the original orders placed with Correctional Industries. However, the Business Group revised at least 13 of the 77 original orders. In some cases, the revisions increased the number of license plates and related items ordered and, as a result, the cost. In other cases, the number of items as well as the order's cost decreased. Correctional Industries produces and bills based upon the revised order. Since the Business Group has not updated its reconciliation to reflect changes in orders, it cannot match orders to shipments.
- **Duplicated Orders.** The Business Group's reconciliation included 11 duplicate orders. These duplicate orders totaled almost \$18,000.
- **Incorrect Order Totals.** We found mathematical errors in eight orders. The math errors in some cases overstate the cost of the order and in other cases understate the actual cost. In total, errors amounted to just over \$7,000. We found that Correctional Industries corrects math errors when it reviews the order and then produces and bills based upon its calculation. Because Correctional Industries does not necessarily notify the Business Group of mathematical errors it finds, the Business Group's reconciliation will not match the total numbers shipped and billed by Correctional Industries.

Each of these issues results in differences between the order documentation maintained by the Motor Vehicle Business Group and Correctional Industries.

The Business Group's ability to compare orders placed with items shipped is limited because Correctional Industries does not always include the Business Group's order number on its billing invoices. Therefore, Motor Vehicle Business Group staff cannot accurately match an invoice to the correct order. In some cases, the Business Group staff have incorrectly concluded that an order has not yet been produced and shipped. As a result, the reconciliation is misleading regarding outstanding orders. We compared the outstanding orders listed on the reconciliation with shipping documentation maintained by Correctional Industries. We found that some orders listed as outstanding had, in fact, been produced and shipped in their entirety. For example, one order on the reconciliation shows that more than 440,000 license plates, representing \$717,000, are outstanding. Through our audit work we were able to verify that all of these plates were shipped and that the Business Group had paid for them. It appears that Business Group staff matched the invoices for this order to other orders containing the same types of plates. Due to the incorrectly matched invoices, the reconciliation gives the appearance that Correctional Industries produced more than requested for some orders and did not fill others. Correctional Industries' practice of not always including the order number on the invoice makes it difficult for the Business Group staff to accurately compare orders with shipments and ensure that it receives what it ordered.

The Motor Vehicle Business Group has worked with Correctional Industries in an attempt to determine the amount of outstanding orders and to calculate the amount of the appropriation still available. To date, the Business Group and Correctional Industries have been unable to reconcile information. As of late April 2002, the Business Group calculated orders totaling almost \$7.3 million. For the same time frame, Correctional Industries documentation shows orders totaling just over \$7.0 million. In the end, Business Group staff used Correctional Industries' calculation of pending orders. Based on that calculation, Correctional Industries and Business Group staff worked together to determine the available appropriation. They used this as the basis for the final license plate orders in Fiscal Year 2002.

Recommendation No. 7:

The Department of Revenue should establish a system for reconciling orders to billing invoices. This should include developing a unique identification number for each order that must be included on all billing invoices.

Department of Revenue Response:

Agree. This recommendation has been partially implemented. We have the unique identifier (i.e. order number 03-001) which DOC and MVBG have agreed to use on all orders. The current reconciliation process will be enhanced per joint agreement with DOC, the county offices, support staff and budget staff. The process will look at the orders encumbered in COFRS, placed, produced, received, invoiced and billed. The time line for full implementation is August 2002.

Department of Corrections Response:

Agree. The Division of Correctional Industries new production control computer system will require a sales order or purchase order number from the customer before processing the order. All correspondence about an order, or changes to the order will require this number as reference. Billings to the Motor Vehicle Business Group will list this number also so that a reconciliation can be done at anytime in the process.

Establish Controls Over Spending

The Motor Vehicle Business Group's duties include tracking the amount of the appropriation that has been paid to Correctional Industries for items delivered, the amount obligated for pending orders but not yet paid, and the amount of the appropriation available for future orders. We found that the Business Group does not have a method for accurately determining the current status of the license plate appropriation. The Business Group relies on Correctional Industries' information for the remaining appropriation available for future orders.

The Business Group has not been able to determine the amount of the license plate appropriation it has available to spend because it does not encumber or track funds when placing orders. For example, in May 2002 the Business Group staff could not tell the members of the License Plate Committee the actual amount remaining in its appropriation. This is because the staff did not know the dollar amount of orders submitted to, but not filled by, Correctional Industries. COFRS indicated an uncommitted balance of \$2.7 million and the Business Group estimated that pending orders totaled about \$300,000. Therefore, the Business Group estimated an available appropriation of up to \$2.4 million and placed corresponding orders with Correctional Industries. Some of these orders as well as previously submitted orders were later cancelled and revised.

One reason for the cancellations and revisions was the fact that Correctional Industries estimated that license plate orders exceeded the available appropriation by \$260,000.

The Motor Vehicle Business Group needs to encumber orders on COFRS and develop an internal system to track the expenditure of the license plate appropriation. Encumbering funds through COFRS when orders are submitted offers the Business Group an easy method to track the license plate appropriation. In addition, encumbering funds would provide the Business Group with an electronic record of the cost of each order and provide an up-to-date status of the appropriation. It would also prevent the Business Group from submitting orders that exceed the available appropriation. Developing an internal tracking system would also improve the Business Group's ability to know the current status of the appropriation. By comparing billing invoices with orders, the Motor Vehicle Business Group can calculate the amount paid to Correctional Industries for completed orders, the amount due to Correctional Industries for orders still in production, and the amount of the appropriation still available for future license plate orders. Reconciling billing invoices with orders provides the Business Group with another method to track the status of the appropriation.

Recommendation No. 8:

The Department of Revenue should encumber funds through the Colorado Financial Reporting System (COFRS) to ensure that it has an electronic record of all orders and an up-to-date accounting of the status of the license plate appropriation. In addition, the Motor Vehicle Business Group should compare orders with billing invoices to track the status of the appropriation.

Department of Revenue Response:

Agree. Implemented April 2002.

System Issues

Chapter 3

We interviewed representatives of the Association of County Clerks, the Motor Vehicle Business Group (Business Group), the Division of Correctional Industries, the Joint Budget Committee (JBC) and the Office of State Planning and Budgeting (OSPB). They registered widespread dissatisfaction with the current system. Comments centered around concerns about the lack of information and fragmentation of the system. There is also a perceived lack of sufficient funding to meet the license plate needs of Colorado citizens. Through our discussions, some suggestions for improving the license plate ordering system were identified. These are discussed below.

Consider Direct Purchase of License Plates

We found the current system for ordering license plates and related items is fragmented. Counties submit their license plate needs to the Motor Vehicle Business Group and rely on it to order those items from Correctional Industries. However, to stay within the available appropriation, the Business Group often reduces and/or changes the orders it receives from the counties. As a result, counties complain that they have an insufficient supply of some types of license plates, while others exist in abundance. During our discussions representatives of various agencies raised the issue of allowing county clerks to directly order license plates. Under this alternative, each county clerk would order license plates and related items directly from Correctional Industries. The general fund appropriation would be divided among the 64 counties and the Motor Vehicle Business Group based upon population and/or vehicle transaction history. The Business Group, working with the License Plate Committee, which includes county clerk representatives, could determine the appropriation allocation for each county. The counties could directly order license plates and related items from Correctional Industries up to the amount of the allocated appropriation. As noted earlier in the report, Correctional Industries has created a Web-based ordering system that should be operational by August 2002. Eliminating the middleman, the Motor Vehicle Business Group, could also reduce inventory ordering and control issues and cut costs.

Consider Cash Funding Specialty Plates

During our audit work we also heard concerns regarding a perceived insufficient amount of funding to purchase license plates. Motor Vehicle Business Group calculations indicate that the current general fund appropriation allows the purchase of license for 1.2 million vehicles as well as tabs and permits. However, the Business Group reported that recent annual transactions for new and replacement license plates require funding for 1.4 million vehicles. In addition, county clerks maintained that they have an inadequate supply of certain popular specialty plates such as personalized plates, collector plates, and the Columbine plate. Both the clerks and Business Group staff noted that the Business Group has limited the purchase of specialty plates in the last couple of years and focused on purchasing more embossed plates. Specialty plates cost more than the embossed plates, so by focusing its purchasing on the embossed plates, the Business Group can plate more vehicles within the appropriation. Additionally, the base general fund appropriation for purchasing license plates will decrease from \$5.8 million in Fiscal Year 2002 to \$4.6 million in Fiscal Year 2003.

The General Assembly could consider cash funding specialty plates. Citizens pay an additional fee of \$25 to purchase a specialty license plate. Currently about \$22 of the extra \$25 fee for specialty plates goes to the Highway Users Tax Fund (HUTF) with the remainder retained by the counties or deposited in the Colorado State Titling and Registration System (CSTARS) account. During the 2002 Session the General Assembly passed legislation creating two new specialty plates that use the additional \$25 fee to pay for purchasing the plates. Cash funding could be expanded to all specialty plates. In Calendar Year 2001 the Business Group used about \$1.4 million of its appropriation to purchase specialty plates. For the same period, the Motor Vehicle Business Group estimated that the sale of specialty plates generated a total of approximately \$11.3 million.

Cash funding would allow the purchase of a steady supply of specialty plates on an as needed basis. Based on comments from county clerks regarding the unmet demand for specialty plates, we believe that there may be opportunities to increase the revenue to the HUTF. In addition, cash funding could improve customer service by increasing the ability of citizens to obtain their favorite specialty plate in a timely manner. In the short-term, cash funding could decrease the amount of money going to HUTF, since the actual cost of the plate, about \$7.52 over its estimated eight-year life, would need to be retained in the cash fund to purchase additional plates. To eliminate any possible negative

impact on the HUTF, the General Assembly could increase the current \$25 fee for specialty plates to include the cost of the actual license plate.

Consider Changes In Tab Production and Distribution

In Fiscal Year 2001 the Motor Vehicle Business Group spent \$1.3 million to purchase month and year tabs for license plates. The month and year tab on a vehicle's rear license plate provides visual evidence that the vehicle is properly registered and all fees have been paid. Some states, including Colorado, have begun to experiment with both multi-year vehicle registration and permanent license plates, thus eliminating the need for month and year tabs.

Several states use permanent license plates and/or multi-year registration for specific vehicle types such as rescue squads, firefighters, fleet vehicles, and state and county cars. One state uses these options for special classes of citizens such as prisoners of war, permanently disabled, and hearing impaired. Currently Colorado allows permanent license plates for public utility vehicles. The Department of Revenue recently received authorization to develop rules that would allow other fleet vehicles to utilize permanent license plates. Using permanent plates would save 28 cents per year for every eligible vehicle, or \$2.24 per vehicle over the estimated eight-year life of the license plate. The Department also has the authority to issue multi-year registrations for certain types of vehicles. If the State moved to permanent license plates and/or multi-year registrations for more vehicles, it could potentially save the State money and reduce the annual trips to motor vehicle offices. In evaluating the use of multi-year registration, the Department needs to take into consideration any TABOR and/or revenue impacts on the counties.

The Department should also consider the costs and benefits of allowing county clerks to print month and year tabs at their offices. The current process, from the time the year tabs are ordered until they are received by the counties, takes approximately nine months. Allowing counties to print the tabs could streamline the process and reduce the overall cost of the tabs. County clerk representatives note that significant time and money is spent producing envelopes for tabs, something that could potentially be reduced or eliminated.

The Department of Revenue should work with the Transportation Legislation Review Committee (TLRC) to explore options for reducing the system's cost while also improving the State's overall license plate ordering system.

Recommendation No. 9:

The Department of Revenue should work with the Transportation Legislation Review Committee to explore options for improving the current license plate system. Discussions might include the following topics:

- a. Allowing county clerks to directly order license plates.
- b. Using cash funding to purchase specialty plates.
- c. Considering changes to the production and distribution of tabs.

Department of Revenue Response:

Partially Agree. The Department will continue to explore opportunities to improve the ordering, production, and delivery of license plates and other products related to the registration of vehicles. We work on a continuous basis with the Transportation Legislation Review Committee.

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

Please refer to the Report Control Number below when requesting the report.

Report Control Number 1458