



**REPORT OF
THE
STATE AUDITOR**

**Department of Revenue
Colorado State Titling
and Registration System**

**Performance Audit
July 2002**

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This report contains the results of a performance audit of the Colorado State Titling and Registration 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.

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

REPORT SUMMARY

**JOANNE HILL, CPA
State Auditor**

**Department of Revenue
Colorado State Titling and Registration System
Performance Audit, July 2002**

Authority, Purpose, and Scope

This audit was conducted under the authority of 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 was conducted in accordance with generally accepted auditing standards. In January 2002 the Department of Revenue identified a \$2 million error in the way that the Colorado State Titling and Registration System (CSTARS) distributed fees collected on 15 types of specialty plates. At that time, the Department requested that the Office of the State Auditor conduct an audit of CSTARS, including identification of the revenue streams into the CSTARS Special Purpose Fund, review of Fund expenditures, and analysis of the future of the CSTARS Fund. This audit presents the findings and recommendations related to review of these issues. We gathered information through interviews, data analyses, transaction sampling, document review, and observation of key processes. We gratefully acknowledge the assistance and cooperation extended by management and staff at the Department of Revenue.

Overview

The Colorado State Titling and Registration System (CSTARS) was created in 1983 by Section 42-1-211, C.R.S., as a means for automating and tracking motor vehicle registrations and titles. According to statute, the purpose of CSTARS is to have an automated database maintained by the Department of Revenue that (1) aids the county clerks (or other authorized agents of the State) in processing motor vehicle registration and title documents, and (2) establishes, operates, and maintains a telecommunications network that provides county clerks with access to the master list of registered electors maintained by the Department of State.

The counties are designated by the Department as authorized agents for the State regarding motor vehicle registration and titling. As a result, counties process the majority of titling and registration transactions in Colorado. However, the Department of Revenue continues to perform some titling and registration transactions at its complex at 1881 Pierce Street in Lakewood. During Fiscal Year 2002 we estimate that CSTARS processed about 8.5 million transactions. Section 42-1-211(2), C.R.S., establishes the CSTARS Special Purpose Fund (or Colorado State Titling and Registration Account) within the Highway Users Tax Fund to pay for the operations of the system. The CSTARS Special Purpose Fund includes primarily monies from motor vehicle titling and registration fees. The CSTARS Special Purpose Fund had revenues of \$8.3 million in Fiscal Year 2001 and expenditures of \$11.8 million, with an ending fund balance of \$742,000. CSTARS and the associated CSTARS Fund are managed by the Department of Revenue, specifically the Information Technology Division.

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

CSTARS' major system processes include titling, registration, permits, inventory, accounting, and placards. In addition to titling and registration functions, the CSTARS system calculates, tracks, and collects numerous different taxes and fees on behalf of the State, counties, municipalities, and other special taxing districts.

System Controls

Our report identifies a number of areas where system controls can be improved, including:

- **Ensure that collections and distributions are made in accordance with statute.** During our review we sampled CSTARS system transactions and transactions conducted at the State's titling and registration office in Lakewood to determine whether revenues were collected and distributed in accordance with statute. We found that errors identified in our Fiscal Year 2002 sample resulted in consumers' being overcharged about \$350,000 for titling and registration services; that the Department is charging consumers for services without having statutory authority to assess fees; and that revenues collected are not distributed among the State Highway Users Tax Fund (HUTF), the CSTARS Special Purpose Fund, and the counties in accordance with statute. We recommend that the Department perform additional testwork to identify errors, reprogram the CSTARS system, and change fees listed on manual transaction forms to ensure titling and registration fees are collected and distributed in accordance with statute.
- **Improve oversight of revenue collection and distribution.** As discussed above, we identified a number of issues with the collection and distribution of titling and registration revenues. In many cases, errors with the collection and distribution of titling and registration fees have continued for nearly 10 years. The reason that errors have gone undetected for such an extended period of time is that the Department does not currently have any procedures in place to review either the transactions processed through the automated CSTARS system or those processed manually at the State's Lakewood office. We recommend that the Department develop policies and procedures for thoroughly testing automated and manual transactions on an ongoing basis.
- **Improve cash controls.** We reviewed cash handling procedures for titling and registration transactions at both the counties and the State. While controls over cash processing in the counties tested appeared to be appropriate, similar controls are not present at the state level. Specifically, we found that Department of Revenue clerks (1) erroneously accept cash payments from customers, (2) do not log cash separately from transaction forms, and (3) change fees on transaction forms. Each of the problems identified puts the Department at risk of revenue loss through theft or fraud. We recommend implementation of controls over cash processes at the state office.

System Operations

We reviewed CSTARS Fund expenditures and identified a number of process changes that could improve cost-effectiveness and customer service for titling and registration functions. Specifically, we found that the Department could:

- **Streamline titling and registration functions at the state level.** There are currently two separate processes in place for titling and registration transactions. While the counties process the majority of the titling and registration documents, the Department also maintains a state office in Lakewood that provides titling and registration services directly to consumers. There are some transactions that both the counties and the state office handle, and in most cases, the counties are able to handle the transactions more quickly. Processes at the state office are inefficient for two reasons: (1) customer service times are longer than necessary, and (2) each transaction at the state office is handled six times before the revenue collected is posted to the State's accounting system. We believe that the State's process for handling titling and registration transactions could be eliminated and that counties could perform these duties; this would result in savings of about \$330,000. At a minimum, the Department could streamline the processes and achieve savings of at least \$112,000.
- **Issue all title documents at the county level.** In addition to maintaining a separate customer service office, the State also maintains the Titles Section. The Titles Section issues title documents on behalf of counties. We believe that the Department could save about \$1.3 million annually by allowing counties to issue all title documents directly to the consumer. Unlike the transactions handled by the state office, the title transactions processed by the Titles Section originate in county offices. For each title transaction processed, the county charges \$9.50, of which counties keep \$4.00 and remit \$5.50 to the State. While we believe that the Titles Section should continue to provide services such as the phone center for answering title questions, training services for the counties, and maintenance of procedures manuals, we do not believe that it is beneficial for the State to duplicate county processing of title documents. If counties were to issue all title documents directly to consumers, there could be a need for a change in the amount of title fees distributed to counties. This would allow the counties to adjust to the increased volume of title documents issued at the county level.
- **Improve oversight of indirect cost allocations.** We reviewed the Department's methodology for allocating indirect costs to the CSTARS Fund. Allocating indirect costs related to support services prevents the use of General Funds to support cash-funded programs. We reviewed some of the allocation calculations and found errors resulting in possible overcharges to the CSTARS Fund of \$62,000 over the past two fiscal years. The Department should strengthen its controls over indirect cost allocations by routinely reviewing underlying assumptions.

System Enhancements

During the audit we identified a number of ways to improve the accuracy and efficiency of the titling and registration processes in Colorado. The Department is planning to completely replace the CSTARS system at a cost of about \$13 million (not including additional operating costs for department staff). We believe that the Department should have a comprehensive plan for the future of the titling and registration functions prior to moving forward with designing and replacing the CSTARS system. Some of the areas we believe are important include:

- **Offering e-government solutions.** According to the American Association of Motor Vehicle Administrators (AAMVA), processing e-government transactions costs 65 percent less than over-the-counter transactions. Additionally, online services shorten transaction times and eliminate many of the paper handling and error resolution tasks performed by motor vehicle agency staff. Although providing e-government services is one of its top priorities, the Department does not anticipate any improvements or additions to online services until the second phase of the CSTARS replacement project (not planned for implementation until Fiscal Year 2005). We believe that the Department should identify cost-effective e-government solutions and that any solutions implemented prior to the CSTARS replacement should be compatible with the new system.
- **Ensuring that titling and registration business processes and system changes are considered before system replacement.** Over time, the fees for titling and registration services have increased; however, there is no cost-related basis for the current fee structure, or for which types of system transactions contribute money to the CSTARS Fund and which do not. Some of the questions that need to be addressed prior to developing the new CSTARS system include (1) how titling and registration transactions will be conducted in the future, (2) how titling and registration functions should be paid for, (3) who the primary service provider for titling and registration transactions should be, (4) who is ultimately accountable for the titling and registration functions, and (5) how consumers can best be served. Without a clearly defined plan for titling and registration, the Department risks repeating the same mistakes it has made in prior information system conversions.

Summary of Agency Responses

A summary of our recommendations and the Department's responses can be found in the Recommendation Locator on the following page. Our complete audit findings and recommendations and the responses of the Department of Revenue can be found in the body of the audit report.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	18	Ensure that titling and registration fees are collected in accordance with statute. Determine the feasibility of refunding overcollections to consumers.	Department of Revenue	Agree	December 1, 2002
2	20	Ensure that manual forms at the state office are accurate and that fees are in compliance with the law. Determine the feasibility of refunding overcollections to consumers.	Department of Revenue	Agree	July 1, 2003
3	23	Reprogram the CSTARs system and change state office forms to ensure that revenue collections are distributed in accordance with statute. Determine the feasibility of repaying HUTF for prior misallocations.	Department of Revenue	Agree	December 1, 2002
4	24	Develop policies and procedures for testing CSTARs and state office transactions.	Department of Revenue	Agree	January 1, 2006
5	26	Implement appropriate controls over cash processes at the state office.	Department of Revenue	Agree	October 1, 2002
6	28	Ensure adequate financial controls over revenues and expenditures.	Department of Revenue	Agree	October 1, 2002

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
7	29	Retain CSTARS transaction data for three years.	Department of Revenue	Agree	Implemented
8	35	Streamline titling and registration functions.	Department of Revenue	Agree	January 1, 2006
9	36	Evaluate all program services provided at the state office to determine if there continues to be a need to operate a centralized office for each program.	Department of Revenue	Agree	January 1, 2006
10	38	Eliminate the State's role in issuing titles for the counties. Determine if additional reimbursement to the counties for processing titles is warranted.	Department of Revenue	Agree	January 1, 2006
11	42	Strengthen controls over indirect cost allocations by performing scheduled reviews of supporting assumptions.	Department of Revenue	Agree	October 1, 2002
12	45	Identify cost-effective e-government solutions for titling and registration.	Department of Revenue	Agree	January 1, 2006

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
13	48	Ensure that business processes and system changes are considered before developing the new CSTARS system.	Department of Revenue	Partially Agree	December 1, 2002, and ongoing
14	50	Work with the General Assembly to propose legislation clarifying the collection and distribution of fees, and change the CSTARS enabling statute to include all statutory funding sources.	Department of Revenue	Agree	Fiscal Year 2003 Legislative Session

Description of the Colorado State Titling and Registration System

Overview

The Colorado State Titling and Registration System (CSTARS) was created in 1983 by Section 42-1-211, C.R.S., as a means for automating and tracking motor vehicle registrations and titles. Since that time, other functions have been added to the CSTARS system, including interfaces with the Motorist Insurance Database for vehicle insurance compliance; the Envirotest database for emission compliance; individual, dealer, and special mobile machinery permits; and placards for persons with disabilities. According to statute, the purpose of CSTARS is to have an automated database maintained by the Department of Revenue that:

- Aids the county clerks (or other authorized agents of the State) in processing motor vehicle registration and title documents.
- Establishes, operates, and maintains a telecommunications network that provides county clerks with access to the master list of registered electors maintained by the Department of State.

The Department provides all hardware, software, technical support, and supplies to counties so that they can use the CSTARS system.

Funding

Section 42-1-211(2), C.R.S., establishes the CSTARS Special Purpose Fund (or Colorado State Titling and Registration Account) within the Highway Users Tax Fund to pay for the operations of the system. The CSTARS Special Purpose Fund includes primarily monies from motor vehicle title and registration fees. Other sources of funding for CSTARS include cash funds from the Central Indexing Fund, transfers from the Department of State, and interest earned. The CSTARS Special Purpose Fund had revenues of \$8.3 million in Fiscal Year 2001 and expenditures of \$11.8 million, with an ending fund balance of \$742,000.

CSTARS and the associated CSTARS Special Purpose Fund are managed by the Department of Revenue, specifically the Information Technology Division. During Fiscal Year 2002 the CSTARS Special Purpose Fund supported a total of 71 FTE, including 31.5 FTE in the CSTARS program, and 39.5 FTE in the Titles Section. Additionally, through the indirect cost allocation process, the CSTARS Special Purpose Fund supports nearly \$1.6 million in personal services and operating costs for the Office of the Executive Director, the Motor Vehicle Business Group, the Information Technology Division, and the Cash and Document Processing Division.

Operations

Section 42-1-210(1)(a), C.R.S., designates the counties as authorized agents for the State regarding motor vehicle registration and titling. As a result, counties process the majority of title and registration transactions in Colorado. However, the Department of Revenue continues to perform some title and registration transactions at its state office in Lakewood. During Fiscal Year 2002 we estimate that CSTARS processed about 8.5 million transactions. CSTARS' major system processes include titling, registration, permits, inventory, accounting, and placards. A description of each function and system process follows:

- **Titling.** Every motor vehicle and manufactured home in Colorado must have a Colorado certificate of title. For vehicles, titling must occur before the vehicle can be given license plates and be registered. For manufactured homes, titling occurs at point of sale. (A manufactured home is “a preconstructed building unit or combination of preconstructed building units without motive power designed and commonly used for residential occupancy by persons in either temporary or permanent locations, which unit or units are manufactured in a factory or at a location other than the residential site of the completed home.”) The titling system processed an estimated 2.1 million title transactions for vehicles and manufactured homes in Fiscal Year 2002.
- **Registration.** Once a Colorado certificate of title is issued, the CSTARS system will allow the vehicle to be registered. Initial registration includes payment of ownership tax, a license plate fee, and assignment of a new license plate and a tab identifying the month and year of plate expiration. According to the Department, CSTARS is used to register about 4.3 million vehicles annually.
- **Temporary Permits.** Temporary permits can be issued to a vehicle prior to receiving a Colorado title and plates or while waiting for paperwork. The

Department could not provide the number of temporary permits issued in Fiscal Year 2002.

- **Placards.** Each placard is issued to a person with a disability and is not linked to a specific vehicle. The Department could not provide the number of placards issued by CSTARs in Fiscal Year 2002.

In addition to the title and registration functions listed above, the CSTARs system calculates, tracks, and collects numerous different taxes and fees. Some taxes and fees are collected on behalf of the State and some are collected for counties, municipalities, and special taxing districts throughout the State. We estimate that revenues collected by CSTARs for Fiscal Year 2001 were about \$810 million of which about \$300 million were remitted to either the State's Highway Users Tax Fund (HUTF) or the CSTARs Special Purpose Fund. The remaining \$510 million was allocated to counties and municipalities throughout the State.

The system also maintains controls over serialized inventory items including 88 different plate types for a wide variety of vehicles. In addition to physical inventory, the current system also tracks nonphysical inventory, such as reception numbers, title numbers, and accounting invoice numbers.

Several other state systems use data transmitted from CSTARs, including the Motorist Insurance Database, the Vehicle Emission Test Database, Colorado Government Technology Services (CGTS, now known as the Division of Information Technology — DoIT), the Secretary of State's Voter Database, the Colorado Voter Registration Database, and Colorado Information Network Services (Uniform Commercial Code filings and liens).

Three different divisions within the Department of Revenue are involved in the process of titling and registration, including:

- **Motor Vehicle Business Group (MVBG)** is responsible for the title and registration functions, including coordinating with counties, overseeing title and registration clerks at the Division's customer service center at the state office, overseeing the Titles Section, and working with the CSTARs Advisory Committee.
- **Cash and Document Processing Division (CDP)** oversees cashiers at the Department's Title and Registration Office, the revenue pipeline, and data entry of titling and registration revenues received from the counties and the state office into

RAS (Revenue Accounting System) and subsequently into the Colorado Financial and Reporting System (COFRS).

- **Information Technology Division (IT)** manages the Department's information technology systems, including the activities of the CSTARS program and the CSTARS Special Purpose Fund. The CSTARS program (formerly known as Distributive Data Processing) makes necessary programming changes to the system, trains county and state staff to use CSTARS, and retrieves bulk record searches from CSTARS upon request.

CSTARS Advisory Committee

Section 42-1-211(4)(a), C.R.S., creates the CSTARS Advisory Committee. The Advisory Committee consists of seven county clerks who are appointed by the Executive Director of the Department of Revenue. According to statute, the Committee's duties include:

- Assisting in the development of annual operational plans and budget proposals for the CSTARS system and Special Purpose Fund.
- Giving final approval of all plans for the development and operation of the CSTARS system and the annual budget and supplemental requests for the Special Purpose Fund.
- Making presentations with the Department to legislative committees regarding the use of funds in the CSTARS Special Purpose account.

CSTARS Replacement

The Department has begun the process of replacing CSTARS. According to department staff, CSTARS is an antiquated system. Staff report that CSTARS currently requires about 25,000 hours of maintenance work to fix problems and to make modifications to implement statutory changes (e.g., adding new license plates, fee changes, etc.). Additionally, counties have difficulty with the system because the system is so complex. Counties report that it takes six to eight weeks for new county staff to become proficient in using CSTARS to process titles and registrations and also that correcting errors in transactions is time-consuming. The Department believes that the CSTARS replacement project should add increased functionality to the system including better tracking of inventory items, easier location and tracking of fee and tax rates, improved accounting

functions, and easier maintenance and upgrade flexibility. Furthermore, the new system should be easier for staff to learn and operate. The Department estimates that the first phase of the CSTARS replacement project will cost about \$10.3 million over three years. Phase I includes the replacement of the basic CSTARS system. If funding is adequate, Department staff would also like to implement Phase II of the project at an additional cost of about \$2.7 million. Phase II includes the addition of e-government functions to the system. Section 42-6-137(1)(b)(I), C.R.S., allows the Department to collect an additional fee of \$2.30 on motor vehicle titles through September 1, 2006 to pay for the CSTARS replacement project. The Department plans on implementing the new system, including some of the additional electronic title and registration functions from Phase II, in Fiscal Year 2005.

As discussed later, the Department estimates the CSTARS Special Purpose Fund will be operating at a deficit beginning in Fiscal Year 2005. As a result, the Department will need to make some hard decisions about how to ensure that adequate resources are available to perform titling and registration functions. Over time, the fees for title and registration services have increased; however, there is no cost-related basis for the current fee structure, or for which types of title and registration transactions contribute money to the CSTARS Special Purpose Fund and which do not. Our recommendations are intended to help the Department re-examine the title and registration functions in Colorado prior to its engaging in extensive system re-design.

System Controls

Chapter 1

Background

Department management estimates that since 1995 nearly \$2 million in license plate revenues have been mistakenly allocated to the CSTARS Special Purpose Fund instead of to the Highway Users Tax Fund (HUTF). In January 2002 department staff corrected a programming error, identified by the county clerks, that was responsible for errors in the allocation of fees collected on 15 types of specialty license plates. Although these errors likely occurred before 1995, the Department has no data on the number of plates issued or on the amount of revenues collected prior to 1995 for these plate types. As a result of these errors, the Executive Director of the Department requested that the Office of the State Auditor conduct an audit of CSTARS, including identification of the revenue streams into the CSTARS Special Purpose Fund, review of Fund expenditures, and analysis of the future of the CSTARS Special Purpose Fund.

We reviewed statutes governing the CSTARS system and related revenue streams for the Fund. In addition, we sampled CSTARS system transactions and reviewed all of the transactions at the State's titling and registration office in Lakewood.

Fees Need to Comply With Statute

Department staff estimate that there are thousands of different variations of titling and registration transactions handled by the CSTARS system. With 88 different types of license plates, 64 different counties, multiple taxing districts within each county, and different combinations of titling and registration transactions such as new titles, new registrations, registration renewals, and adding/extending/releasing liens, the combination of transaction types is substantial. The CSTARS transaction types we tested included motor vehicle title fees, fees for certain types of license plates, manufactured home title fees, distribution of ownership tax, and copies of motor vehicle and manufactured home records. We did not test taxes charged by CSTARS for various taxing districts, or the distribution of those taxes to the various municipalities.

We reviewed a sample of 52 types of CSTARs transaction combinations and reviewed all 27 types of titling and registration transactions processed at the State's office in Lakewood. Of the 52 automated CSTARs transaction types tested, 18 types (35 percent) had errors. Nine types (33 percent) of transactions processed manually at the state office were not in compliance with statute. The error rate in the sample of CSTARs transactions raises significant concerns about the accuracy of other fees and taxes collected by the CSTARs system and the need to validate the system.

Address Programming Errors

We estimate that the Department overcharged consumers about \$350,000 for a sample of transaction types processed through the automated CSTARs system during Fiscal Year 2002. Our review of CSTARs system transactions identified a number of transactions in which the system is erroneously charging more than is authorized by statute. Of the 52 CSTARs transaction types sampled, 5 types (or 10 percent) contained errors that resulted in the customer's being overcharged for services. For these five transaction types, CSTARs processed about 67,000 transactions in Fiscal Year 2002. The table below shows the transaction type, the fee authorized in statute, the fee as programmed in CSTARs, and the estimated overcharge to customers in Fiscal Year 2002.

Estimated Overcharges for Titling and Registration Transactions Tested Fiscal Year 2002					
Transaction Type Tested	Estimated Number of Transactions FY 2002¹	Statutory Fee Authorized	Fee as Programmed in CSTARS	Overcharge to Customer for Each Transaction	Estimated Total Overcharge Fiscal Year 2002
Motor Vehicle Release of Lien	50,374	\$1.50	\$7.20	\$5.70	\$287,132
Manufactured Home Title	10,399	\$5.50	\$9.50	\$4.00	\$41,596
Manufactured Home Title with Lien	4,033	\$5.50	\$7.20	\$1.70	\$6,856
Manufactured Home Release of Lien	922	\$1.50	\$7.20	\$5.70	\$5,255
Manufactured Home Duplicate Title	1,372	\$1.50	\$8.20	\$6.70	\$9,192
Total Overcharges for All Transactions Tested					\$350,031
Source: Office of the State Auditor's analysis of CSTARS transaction data and statutes governing titling and registration services.					
¹ Estimated number of transactions used in this analysis is annualized based on the number of business days during the period of September 27, 2001, through May 8, 2002. The Department does not have transaction data for all of Fiscal Year 2002. At the time of the audit, the Department had purged all transaction data prior to September 27, 2001, and the transaction data used in this analysis were current as of May 8, 2002.					

We could not determine the basis for the discrepancy between the fees authorized in statute and the fees as programmed in CSTARS. A partial explanation from the Department is that system errors related to overcharging for manufactured home titles may have begun in 1997 when House Bill 97-1189 increased fees for motor vehicle titles from \$5.50 to \$6.50. Although the legislation only increased motor vehicle title fees, the Department seemingly applied the increase to manufactured home titles as well. Motor vehicle title fees were increased again by House Bill 01-1100 in September 2001 from \$6.50 to \$9.50 (\$7.20 plus a special \$2.30 fee to replace the CSTARS system). However, these legislative changes do not explain all overcharges. Over the last five years,

the overcharges for these services could have been as much as \$1.7 million. Because of the Department's error, counties have been overcollecting on the five transaction types listed in the table above and, as a result, will be facing unanticipated reductions in revenue. While we believe that refunds to consumers are due, there are several complicating factors, including (1) determining the amounts that individual counties have retained, and (2) obtaining sufficient transaction data to determine the full amount overcollected since 1997.

Recommendation No. 1:

The Department of Revenue should (1) extend the testwork in our sample to determine if additional errors exist, and (2) reprogram the CSTARs system to ensure that fees for titling and registration transactions are collected in accordance with statute. Additionally, the Department needs to determine the feasibility of refunding overcollections to consumers.

Department of Revenue Response:

Agree. Implementation: December 1, 2002. The Department agrees to make programming changes in the current computer system utilized by both the State Titles and Registrations office and the county motor vehicle offices and ensure that the fees collected are in compliance with statute. The Department will work with the Governor's office and JBC to determine the feasibility of refunding overcollections, if possible, to consumers.

Forms Used by the State to Manually Process Transactions Need to Be Corrected

As noted earlier, counties process transactions through the automated system. The state office in Lakewood does not use the system. It uses a forms-driven process. In addition to programming errors, we found that the Department's forms contain errors. Specifically, fees for 8 (30 percent) of the 27 transaction types processed manually at the state office are not authorized by statute. Additionally, 1 of the 27 transaction types processed manually was not distributed in accordance with statute as discussed later. In Fiscal Years 2001 and 2002 the Department collected at least \$78,400 in unauthorized fees because

of errors in the printed forms. We could not determine the full impact of the unauthorized fees collected because the Department does not track the number of all transaction types it processes. The Department does not have authority to assess and collect fees, other than those authorized by statute for vehicle registration and taxation covered in Title 42, Article 3, C.R.S. Nonetheless, unauthorized fees appear on the transaction forms, and the Department is charging fees without statutory authority for the following eight types of transactions at the state office:

- **Title History.** Without statutory authority, the Department currently charges \$6.60 for each title history, all of which is allocated to the CSTARs Fund. In Fiscal Year 2001 the state office collected nearly \$29,000 for title history searches, and in Fiscal Year 2002 it collected about \$39,000.
- **Sample Plates.** Sample plates are nonofficial plates, generally purchased as memorabilia or by people who collect license plates. Without statutory authority, the Department currently charges \$3 for green and white sample plates and \$8 for designer sample plates. The Department allocates sample plate fees to HUTF. The state office collected a total of about \$1,900 for sample plates in Fiscal Year 2001.
- **Special Mobile Machinery Exempt (SME) Plates.** An SME plate allows a vehicle that does not conform to Colorado's lighting requirements to be moved over the highways during daylight hours only. Without statutory authority, the Department currently charges \$1 for SME plates and allocates the fees to the General Fund. The state office collected a total of about \$1,000 for SME exempt plates in Fiscal Year 2001.
- **Mobile Home Redemption.** The Department places a hold on a mobile home record when an owner is delinquent in paying taxes on his/her mobile home. Without statutory authority, the Department charges \$5 to redeem the record after taxes have been paid. In Fiscal Year 2001 the state office collected about \$5,800 in mobile home redemptions.
- **Collector Ownership Tabs.** Without statutory authority, the Department charges \$1.50 per tab, all of which is allocated to HUTF. There is not a separate fee in statute for these tabs which are for collector vehicles that are not registered but have had the ownership tax paid. The state office collected about \$1,700 for collector ownership tabs in Fiscal Year 2001.

- **Special Mobile Machinery (SMM) Dealer Plate Issuance and Renewal.** SMM dealer plates are issued to dealers or manufacturers of special mobile machinery, such as tractors or other farm equipment. The fees currently charged are \$30 for the first plate and \$10 for each additional plate. The Department could not provide information on the total unauthorized dollars collected for these transactions.
- **Conversion of Personalized Plate Replacement.** For this transaction the Department charges \$13 and allocates the entire fee to HUTF. This fee is not authorized by statute. Department staff were unable to provide documentation on the total dollars collected inappropriately.
- **Personalized Plate Reissue.** The fee for reissuing a personalized plate is \$14, all of which is allocated to HUTF. This fee is not authorized by statute. Department staff could not provide documentation on the total dollars collected inappropriately for reissuing personalized plates.

As with Recommendation No. 1, we believe that refunding consumers for fees charged without statutory authority is appropriate; however, the Department likely does not have sufficient transaction data for those transactions at the state office to determine the total dollar amount by which consumers were overcharged, or historical forms data indicating how long such overcharges have been occurring.

Recommendation No. 2:

The Department of Revenue should ensure that the transaction forms at the state office charge fees in accordance with statute. Additionally, the Department needs to determine the feasibility of refunding overcollections to consumers.

Department of Revenue Response:

Agree. Implementation: July 1, 2003. The Department will ensure that all fees collected are in accordance with state statute. Department staff will seek legislative changes, where necessary during the 2003 legislative session, and verify that all fees are charged accordingly. The Department will work with the Governor's office and JBC to determine the feasibility of refunding overcollections, if possible, to consumers.

Distribute Revenues in Accordance With Statute

During our review of both automated CSTARS system transactions and manual transactions at the state office, we found a number of instances in which the Department has not distributed revenues collected in accordance with statute. Of the 52 CSTARS transactions sampled, 9 (17 percent) did not distribute revenues correctly. In addition, we found that one of the manual types of transactions processed at the state office resulted in a large misallocation of money to the CSTARS Fund. Examples of the problems with revenue distribution include:

- **Fees for the bulk transfer of records are going to the CSTARS Special Purpose Fund inappropriately.** Section 42-1-206(3.7)(a) and (e), C.R.S., allows the Department of Revenue to provide records in bulk to various entities, including criminal justice agencies, primary users, and vendors who are permitted to receive such information. CSTARS program staff perform the billing for bulk records transfers and the cashiers at the state office collect payment. For this service the Department charges \$25 per 1,000 records. Although revenues from the sale of bulk records are to be remitted to HUTF, the Department is allocating 100 percent of revenue received for bulk records transfers to the CSTARS Fund. We estimate that in Fiscal Year 2002 the total dollar amount misallocated to the CSTARS Special Purpose Fund was about \$270,000. These misallocations have been occurring since at least July 1999, when House Bill 99-1293 became effective allowing for the bulk transfer of records. Misallocations could total as much as \$810,000 that should have gone into the Highway Users Tax Fund.
- **Fees for some license plates are distributed to the CSTARS Special Purpose Fund inappropriately.** Section 42-3-115.5(1)(c)(II)(C), C.R.S., states that for each \$10 fee charged for Honorably Discharged Veteran and Disabled Veteran License Plates, the CSTARS Special Purpose Fund is to get \$1.15. In addition, the Department is currently allocating \$1.15 to the CSTARS Special Purpose Fund for eight more military plate types (including disabled and motorcycle versions of the plates). However, statutes do not authorize \$1.15 allocated to the CSTARS Special Purpose Fund for these eight military plate types, including Purple Heart plates, Former Prisoner of War plates, and Marine Corps plates, each with its various versions. The total impact of these misallocations could not be determined because the Department does not have data on the number of second sets of Purple Heart or Former Prisoner of War plates (there is no \$10 fee on the first set of plates). The Department does have

data on the number of Marine Corps plates issued. Approximately 2,400 Marine Corps plates were issued in Fiscal Year 2002, resulting in a \$2,800 misallocation to the CSTARS Fund. According to department staff, these errors have been occurring since at least 1994, or for eight years.

- **Fees for some license plates are distributed to counties inappropriately.** Section 42-3-115.5(1)(c)(II)(C) and (F), C.R.S., states that for each \$10 fee collected on Honorably Discharged Veteran, Disabled Veteran, and Marine Corps license plates, \$1 will be retained by the county. In addition, the Department is currently allocating \$1 to counties for another six military plate types (including disabled and motorcycle versions of the plates). There is no statutory authority for the \$1 allocation for these six military plate types. The impact of this misallocation is estimated to be small. However, we were unable to calculate the dollars misallocated because the Department does not track information on the number of second sets of plates issued (there is no fee for the first set of plates). According to Department staff, these errors have been occurring since 1994.
- **Fees for inquiries on manufactured housing titles are going to the CSTARS Special Purpose Fund inappropriately.** Currently the Department is charging \$2.20 for all inquiries or copies of manufactured housing records. Of this amount, \$.10 is remitted to the CSTARS Special Purpose Fund. There is no statutory authority for any portion of the fees charged for manufactured housing inquiries to go to the CSTARS Special Purpose Fund. In Fiscal Year 2002 there were approximately 63 manufactured house title inquiries for which funds were deposited to the CSTARS Special Purpose Fund inappropriately. These errors have likely been occurring since CSTARS was implemented in 1983. While the amount is insignificant, it is again indicative of a lack of system controls.
- **Multiple transactions performed at the state office contribute all fees to the CSTARS Fund.** Although statutes specifically state that fees for transactions, including record searches, certification of records, and assignment of new vehicle identification numbers are to be divided between the county and the CSTARS Special Purpose Fund, the Department is currently allocating 100 percent of revenues collected for these transactions to the CSTARS Fund. For example, the charge for a new vehicle identification number is \$3.50, of which statute distributes \$1.00 to the CSTARS Special Purpose Fund and the remainder to the county. The Department is currently allocating the full \$3.50 for new vehicle identification numbers to the CSTARS Fund. However, according to statute, the counties are supposed to receive \$2.50 for each of these transactions that is fully processed by the state office. Also, statutes state that fees for temporary permits and green and

white personalized plate applications are to be divided between the county and the Highway Users Tax Fund. However, the Department is currently allocating 100 percent of revenues collected for these transactions to the Highway Users Tax Fund. We could not determine the total amount represented by these transactions because the state office does not track this information.

These examples, in conjunction with the Department's finding that \$2 million in license plate fee revenue was misallocated to the CSTARs Fund, raise serious concerns about the integrity of the CSTARs system and its ability to appropriately distribute monies collected. As with Recommendations No. 1 and No. 2, we believe that it is appropriate for the CSTARs Special Purpose Fund to repay those revenues misallocated as a result of the mistakes identified by this audit and for the misallocated license plate revenue identified by the Department. Repayment is complicated in that the Department does not have sufficient transaction data to identify the total dollars misallocated since the errors began occurring.

Recommendation No. 3:

The Department of Revenue should reprogram the CSTARs system and change manual forms to ensure that revenue collections are distributed in accordance with statute. Additionally, the Department should determine the feasibility of repaying HUTF for misallocations.

Department of Revenue Response:

Agree. Implementation: December 1, 2002. The Department will analyze current statute and forms currently used to determine discrepancies and notify ITD of any changes required in programming. The Department will initiate form corrections as necessary to be in compliance with statute by December 1, 2002. The Department will work with the State Controller's Office, OSPB, and JBC to determine the feasibility of refunding over-collections, if possible, to the Highway Users Tax Fund.

Improve Oversight of Revenue Collection and Distribution

Many of the errors with the collection and distribution of titling and registration revenues have continued for nearly 10 years. The reason that these errors have gone undetected for such an extended period of time is that the Department does not currently have any procedures in place to systematically review CSTARS system or manual transactions to ensure that collections and distributions are in compliance with statute. As discussed previously, the county clerks identified a large misallocation of revenues in January 2002: \$32 per plate was being allocated to the CSTARS Special Purpose Fund instead of to HUTF. Because of the error, about \$2 million was allocated to the CSTARS Special Purpose Fund between January 1995 and January 2002. This entire amount should have been allocated to HUTF for supporting development and maintenance of the State's highways. This misallocation could have been identified earlier if the Department had been reviewing CSTARS transactions.

According to department staff, they primarily rely on the counties to provide feedback on whether the system is collecting and distributing revenues appropriately. However, all five counties we interviewed stated they are not performing checks on system collections or distributions. Instead, they rely on the automated CSTARS system to distribute collections appropriately.

Unfortunately, there is no system documentation showing how CSTARS allocates funds by transaction type. Collections and distributions for a specific transaction must be tested by tracing the collections through the end-of-month reports. Without validating the current system, transitioning to the new CSTARS system will be problematic in that (1) if the new system uses all new transaction information, there could be wide variations in revenue collections and distributions, and (2) if old system logic migrates to the new system, errors will continue to exist.

Recommendation No. 4:

The Department of Revenue should develop policies and procedures for thoroughly testing CSTARS and state office transactions on an ongoing basis.

Department of Revenue Response:

Agree. Implementation: January 1, 2006. Department staff will task a working group to formulate policies and procedures to test the current Titling and Registration system transactions. The group will further work to identify and resolve system logic errors and to resolve those errors in concert with the development of the new CSTARs system. Recommendations from this group will be fully implemented by January 1, 2006, and included as part of the CSTARs rewrite.

Improve Cash Controls

In addition to evaluating controls over titling and registration transactions, we reviewed cash handling procedures for these transactions at both the counties and the state office. While controls over cash processing in the counties tested appeared to be appropriate, similar controls are not present at the state office. The state office remits the majority of revenues it collects to the CSTARs Special Purpose Fund. Specific problems we identified at the state office include:

- **Clerks accept payment from customers.** This practice is against department policy. However, we observed a clerk accepting cash one time during the three hours we observed transaction processing at the state office. The supervisors of the titling and registration clerks and cashiering section were not aware that staff collect and accumulate customer payments at their desks. Because there are no compensating controls over cash, such as system-generated reports documenting how many transactions occurred and total collections for those transactions, a clerk accepting cash could conceivably pocket cash or checks collected and destroy the form used for the transaction. As another example, the clerk could process a transaction, not charge the customer, and destroy the form. Both circumstances would currently go undetected by the Department.
- **Clerks do not log cash separately from transaction forms.** As a result, there are no controls in place to ensure that state office clerks are submitting to the Department for deposit all monies collected through walk-in or mail-in transactions.
- **Clerks change fees on forms.** We found several instances where the fees shown on the transaction form did not agree to the amount the customer was

charged. For example, the cost for a title history is \$6.60, yet the clerk handwrote a total charge of \$2.20 on the form for this service. The cashiers then accepted the customer's check for \$2.20 because it matched the total that the clerk had written on the form. Cashiers do not check to ensure that charges for individual services provided add to the total written by the clerk but rather only check to ensure that the customer's payment matches the total amount due. Additionally, when a customer mails in the wrong amount, state office clerks often change the title or registration form to match the payment. Allowing the same clerk who handles cash to change the fee stated on a form compromises controls over cash. A clerk could change the amount shown on the form, keep a portion of the payment, and remit the remainder to the cashier.

If the Department implements recommendations for streamlining or eliminating titling and registration processes at the state office, as discussed in Recommendation No. 8, problems with cash handling would be greatly reduced or eliminated. However, during the interim the Department will need to immediately implement cash control procedures to reduce the chance that revenue losses occur. These controls should include logging checks and transaction documents separately; daily reconciliation of deposits and transactions; eliminating clerks' ability to accept cash, including signs at clerks' stations instructing the customer to pay the cashier; and instituting more formalized procedures for changing fees on transaction forms.

Recommendation No. 5:

The Department of Revenue should take immediate action to implement appropriate controls over cash processes at the state office, including, but not limited to, (1) logging checks received and transaction forms separately and reconciling these documents daily, (2) reconciling deposits and transactions daily, (3) eliminating state office clerks' ability to accept cash, and (4) formalizing procedures for changing fees on transaction forms.

Department of Revenue Response:

Agree. Implementation: October 1, 2002. The Department agrees that the Titles and Registration Customer Service agents and those employees in the production areas of Titles and Registration should not have the responsibility of handling cash, checks or money orders that have been submitted to the Department through the mail.

Reconcile Revenue Remittances

We found that the Department does not have any procedures in place to reconcile the dollar amounts sent in by the counties to the transactions that occurred. Additionally, no procedures are performed to verify the appropriateness of the revenues the state office submits to the Cash and Document Processing (CDP) Division. In fact, there is little tracking of the number of transactions processed by the state office. Performing such reconciliations is important, since county and state office staff have some flexibility in assessing fees. For example, counties are able to decrease certain registration and title fee charges through the use of exemptions in the CSTARS system. As discussed, clerks at the state office are allowed to alter fees on transaction forms. With this authority, clerks could conceivably charge the customer the full price for the service and keep the difference between what they charged the customer and the lower amount shown on the system or form. Without reconciliation procedures department staff can do little to identify such problems. As discussed in Recommendation No. 5, problems with cash controls at the state office also leave the Department vulnerable to loss of revenue through fraud or theft.

As discussed later, the CSTARS system is programmed to determine the charge for each transaction that occurs and how revenues collected should be divided among various state funds, counties, and municipalities. At the end of each month, counties use the CSTARS system to run reports that show the counties how much collected revenue should be remitted to the State, and how much other revenue the county has retained. We performed tests of transactions occurring both at the state office and in the counties to determine whether revenues were collected and distributed appropriately. As discussed in Recommendations No. 1 through No. 3, we found that 35 percent of the CSTARS system transactions tested had either collection or distribution errors (or both), and 33 percent of transactions tested at the state office had collection or distribution errors (or both). In addition, we reviewed data entry for revenue remittances from the counties and the state office into the Revenue Accounting System (RAS), performed analytical testing over county remittances, and performed analytical tests of titling and registration expenditures. The results of our review include:

- **County remittances posted to COFRS incorrectly.** Although the errors we found are immaterial to the Fund, these errors could have been identified if the Department had been conducting routine analytical review of county remittances. In each case, we were able to find the error because it appeared that a county did not remit revenue in a particular month. We found 38 errors out of 71 (54 percent) transactions tested, totaling about \$73,000, that the Department did not previously detect (about 1.3 percent of all transactions posted to CSTARS accounts in RAS in Fiscal Years 2000 and 2001). The Department corrected all

data entry errors identified. These errors were primarily entry of the remittance into the wrong accounting period.

- **Revenues collected at the state office posted to COFRS incorrectly.** During our one-hour observation of data entry staff's entering auto salesmen's licenses, auto dealers' licenses (both driver service transactions), and a batch of registration transactions from the state office, we noted three errors made by staff. These errors totaled \$2,010 in misallocated revenue. With additional testing, we found another error for \$850 in auto dealer license fees posted to the wrong fund.
- **Titling- and registration- related supplies were incorrectly paid for with General Fund dollars.** During our review of expenditures for the CSTARS program and Titles Section (both paid for entirely by the CSTARS Fund), we found \$6,000 charged to the General Fund that should have been charged to the CSTARS Fund. The \$6,000 was for envelopes and mailing supplies to mail out title documents. On the basis of our findings, the Department used a journal voucher to correct \$5,000 of the \$6,000 error; however, in doing so, they missed the remaining \$1,000 (occurring on a separate purchase order). Because the Department believes the remaining \$1,000 charged to the General Fund to be immaterial, it plans no further corrective action.

These problems are indicative of the Department's need to perform analytical tests and reconciliations of county and state office remittances to ensure that all dollars remitted are accounted for appropriately. Departmental review of monthly county remittance postings to RAS or review of CSTARS Special Purpose Fund expenditures would have resulted in earlier identification of these problems. The current CSTARS system offers little to counties or the State in the way of automated reports or processes that check to ensure appropriate collection of revenues and remittances for transactions. The Department should work to incorporate reconciliation functions within the new system to address the need for ensuring that the Department receives the appropriate dollar amount for transactions. Without reconciliation functions, the Department is unable to ensure that revenue remittances are appropriate and allocated to the correct funds.

Recommendation No. 6:

The Department of Revenue should ensure adequate financial controls over revenues and expenditures by (1) conducting reasonableness tests on a regular basis, (2) reconciling transactions to deposits to the accounting system, and (3) ensuring adequate reviews over all transactions.

Department of Revenue Response:

Agree. Implementation: October 1, 2002. The Department will implement this recommendation in concert with Recommendation No. 4.

Retain Transaction Data for Analysis

We found that the Department does not have historical transaction data. At the time of this audit, the Department had purged all transaction files prior to September 2001 to conserve space on the CSTARS system server. This means that there is no longer any transaction data for periods prior to September 2001. Additionally, the Department does not have a full year of data for Fiscal Year 2002. According to the State Records Management Manual, issued by Colorado State Archives, state agencies are required to retain data on transactions processed for a minimum of two years. Section 6-17-104, C.R.S., requires records to be maintained for three years. Because transaction data are the only data the Department has to support revenue collections reported on COFRS, it is critical that the Department maintain transaction data for at least three years.

These data could also be useful for departmental planning purposes and determining appropriate fee structures for various transactions. Without historical transaction data, predicting future revenues, identifying trends and outliers, and justifying future rate increases will be difficult. Interviews with staff of the Joint Budget Committee and the Office of State Planning and Budgeting indicated concerns with the Department's current revenue projections and with the availability of funds to complete the CSTARS system replacement project. The Department's lack of historical data increases these concerns. Without transaction data the Department is unable to make informed decisions related to the titling and registration functions.

Recommendation No. 7:

The Department of Revenue should retain CSTARS transaction data for three years. Retaining data for a number of fiscal year periods would enable the Department to identify trends and outliers, predict transaction volumes, and plan for future changes in titling and registration functions.

Department of Revenue Response:

Agree. Implemented. The need for data retention is important and serves numerous purposes, including adherence to the State Records Management Manual, and various levels of management analysis, reporting and decision making. The cost to retain the data must be balanced against the benefit received. The Department has already begun retaining data. All purged data from the CSTARS system server is stored on a medium accessible for future data requests. The Department will review existing data retention requirements, new or revised management analysis requirements, and develop a data retention strategy to ensure the required data is identified and retained. The results of these activities will define a process and procedure of data retention for decision making that will be implemented with the rewrite of the CSTARS system.

System Operations

Chapter 2

Background

The Colorado State Titling and Registration System (CSTARS) is funded through fees and taxes collected for titling and registering motor vehicles, for titling manufactured homes, and from the sale of some specialty license plates. A portion of the fees and taxes from these types of transactions is remitted to the CSTARS Special Purpose Fund, which provides financial support for the operation of CSTARS. In Fiscal Year 2001, total revenues of \$810 million were collected and distributed by the system. About 1 percent, or \$8.3 million, was allocated to the CSTARS Special Purpose Fund.

As shown in the table below, the CSTARS Special Purpose Fund balance has varied over the past four fiscal years. The Fund balance decreased significantly in Fiscal Year 2001 due to a \$4.2 million expenditure to upgrade the operating system and county hardware for the CSTARS system. Additionally, on the basis of the Department's revenue and expenditure projections, the CSTARS Special Purpose Fund will have a deficit before the end of Fiscal Year 2005.

CSTARS Special Purpose Fund
Unaudited Revenues, Expenditures, and Fund Balance ¹
Fiscal Year 1999 to Fiscal Year 2005 (Projected)

	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002 (Projected ²)	Fiscal Year 2003 (Projected)	Fiscal Year 2004 (Projected)	Fiscal Year 2005 (Projected)
Revenues³	\$8,668,292	\$10,105,036	\$8,331,102	\$9,059,948	\$8,596,956	\$8,793,065	\$8,993,684
Expenditures	\$8,602,282	\$9,625,103	\$11,767,783	\$8,629,126	\$9,091,209	\$9,275,792	\$10,010,671
Difference	\$66,010	\$479,933	(\$3,436,681)	\$430,822	(\$494,253)	(\$482,727)	(\$1,016,987)
Ending Fund Balance¹	\$3,698,332	\$4,178,265	\$741,584	\$1,172,406	\$678,153	\$195,426	(\$821,561)

Source: Actual revenue and expenditure information was obtained from COFRS Financial Data Warehouse; projected revenue and expenditure information was obtained from the Department of Revenue's analysis of the future of the CSTARS Fund.

- ¹ Analysis does not include impact of the CSTARS replacement project, since the project has a separate revenue stream.
- ² Fiscal Year 2002 projections are based on actual collections and expenditures through April 2002, and projected for the remaining two months in the Fiscal Year.
- ³ Revenues include title fees, ownership tax, non-fee based revenue (e.g., transfers from other state agencies), and interest.

Notes:

- Revenue projections decrease from Fiscal Year 2002 to 2003 because of about \$528,000 in misallocated plate revenue and \$270,000 in misallocated bulk record transfer revenues that will no longer be allocated to the CSTARS Fund.
- Department of Revenue uses a 1.15 percent rate of increase in fee- and tax-based revenues for Fiscal Year 2003 (using Fiscal Year 2001 actual revenue data) and a 2.3 percent rate of increase for fee- and tax-based revenue in Fiscal Years 2004 and 2005 (using Fiscal Year 2003 and 2004 estimated revenues).
- Department of Revenue uses a 5 percent rate of increase for personal service expenditures.
- Department of Revenue expenditure projections do not include any increases in operating expenditures for Fiscal Years 2003 to 2005.

We reviewed CSTARS Special Purpose Fund expenditures and identified a number of process changes that could improve cost-effectiveness and customer service for the titling and registration functions in the State. We found that the efficiency of the Department's titling and registration processes could be improved.

Streamline Titling and Registration Functions at the State Level

There are currently two separate processes in place for processing titling and registrations for motor vehicles and manufactured housing in Colorado. While the counties process the

majority of the titling and registration transactions, the Department of Revenue also maintains a state office that provides titling and registration services directly to consumers. The state office serves consumers directly just as county offices do by processing title applications and certain types of registration transactions. Although some types of titling and registration documents are processed by both the counties and the state office, the counties typically process certain transaction types more quickly. For example, one-day dealer titles are currently processed by both the counties and the state office. Counties generally provide the customer with the dealer title at the time of the transaction, whereas there is usually a 24-hour delay before a customer can get a dealer title from the state office. Additionally, the state office charges \$25 for a one-day dealer title, while the counties charge \$9.50. The processes for the counties and the State are summarized below.

County Offices

County offices use CSTARS to process all titling and registration transactions. Typically, the clerk who performs the transaction also accepts payment from the customer. As a compensating control over cash processing, the counties use computer-generated reports to reconcile daily cash collections. Each day, CSTARS generates end-of-day reports that the county uses to reconcile the dollars collected on transactions to the cash received. At the end of the month, each county sends a check to the Department of Revenue's Cash and Document Processing (CDP) Division for the State's portion of the titling and registration collections. The county also sends a remittance advice form that is generated by CSTARS. This remittance advice details how the revenues collected should be divided among various state funds, including the Highway Users Tax Fund (HUTF), the CSTARS Special Purpose Fund, and various municipality funds. The CDP Division then data enters information from the remittance advice into the Department's Revenue Accounting System (RAS). Each night, RAS posts this information to the State's Colorado Financial and Reporting System (COFRS).

State Office Operations

As discussed previously, the Department maintains a state office in Lakewood for handling certain types of titling and registration transactions. The state office also handles transactions for other programs, including Driver Services, Motor Carrier Services, and Emission Services. The Department also processes penalty assessments at the state office. Clerks at the state office initiate transactions and a separate cashier accepts payment. Paper forms, rather than the CSTARS system, are used at the state office to process transactions. At the end of each day, the state office cashiers reconcile cash collected to the transaction forms and send both the forms and cash to the Department's Cash and Document Processing (CDP) Division. However, there is no reconciliation of the forms to the CSTARS system. CDP staff then once again reconcile the forms to cash. The forms

are then sent to the data entry section, while the cash is deposited with the Department of Treasury. CDP data entry staff enter each form onto RAS based on the liability code information shown on the forms. Finally, RAS posts the information to COFRS nightly. We believe the state processes are inefficient for several reasons, including:

- **Customer service time at the state office is longer than necessary.** A customer at the state office must first go to the clerk to initiate the transaction, then to the cashier to pay, and back to the first clerk to show proof of payment and to receive the document requested. While the customer is at the cashier, the clerk typically does not serve another customer. On average, we found that clerks take 8.9 minutes to fully complete each transaction. Clerks spend about two minutes of idle time, waiting for the customer to pay the cashier. Our observation of customer service times and analysis of data from the Department's customer service tracking system indicated that there is an average of 3.5 hours per day in which a registration clerk does not serve customers. During our observation of registration clerks, clerks were not performing any other office duties when they were not serving customers.
- **Each transaction is handled multiple times.** The Department estimates that about 214,000 forms per year are generated at the state office. About 49,000 (23 percent) are for titling and registration transactions. Each of these forms is handled six times before the revenue from the transaction is posted to COFRS: (1) the clerk begins the process, (2) the cashier accepts the money, (3) the clerk then reviews the proof of payment, (4) the state office cashiers reconcile the forms with the cash, (5) CDP staff again reconcile the forms with the cash, and (6) CDP staff enter the data into RAS. In contrast, because more of the processes are automated at the county, individual county transactions are handled only once by the clerk.

The Department has an opportunity with the CSTARs replacement project to improve titling and registration processes. We believe there are two options the Department should consider:

- **Eliminate titling and registration functions at the state office.** Under this option, counties would be allowed to process all transactions currently processed at the state office. Department staff we interviewed told us that they believe the 27 types of transactions processed at the state office could be processed by the counties. We estimate that nearly \$330,000 could be saved annually at the state level if the state office clerks and cashiers no longer processed titling and registration transactions. These cost savings estimates include clerk and cashier salaries, data entry and error resolution salaries, forms production, microfilming, operating expenses, cleaning, telecommunications, and management overhead. From both a cost savings standpoint and a customer service standpoint, eliminating the state office as a titling and registration office is advantageous.

- **Streamline the process.** Under this option, titling and registration functions at the state office would be operated like a county office. Instead of being forms-driven, CSTARs would be used to process titling and registration transactions. By implementing this approach, the Department could, according to our estimate, realize annual savings of about \$112,000 for cashier salaries, data entry and error resolution salaries, forms production, microfilming, and management overhead. These cost savings estimates include (1) elimination of the separate cashiering function and addition of compensating cash controls, such as sequentially pre-numbered transaction forms and computer-generated transaction reports that reconcile to cash collections; (2) transitioning the state office from manual transaction forms to automated transaction processing using the CSTARs system; and (3) improving customer service by decreasing wait times.

All five counties we interviewed stated that they are willing to take on additional transaction types and prefer to have as much independence from the State as possible. By eliminating the state office for processing titling and registration transactions, counties would process an estimated 49,000 more transactions each year (statewide). This represents an increase in transaction volume of less than 1 percent for the counties. According to the Colorado State Association of County Clerks and Recorders, counties could easily absorb the 49,000 transactions into what they are already processing. Current statutory distribution of titling and registration fees allocates a portion of titling and registration fees to counties. As a result, if the counties take over processing of the state office transactions, they will automatically be paid for the additional workload (counties do not currently receive a portion of titling and registration fees for transactions handled by the state office).

As discussed previously, the state office also conducts business on behalf of several other state programs, including Driver Services, Motor Carrier Services, and Emission Services. The Department should examine each of these programs to determine whether there continues to be a need for the Department to maintain a central office location or if the services conducted in the state office could be performed by other local offices. In doing this, the Department may be able to identify additional savings by eliminating all state services at the state office.

Recommendation No. 8:

The Department of Revenue should streamline inefficient titling and registration processes. For example, the Department should consider either (a) eliminating the state office as a customer service office for titling and registration and requiring counties to process these transactions, or (b) streamlining the state office's transaction processes.

Department of Revenue Response:

- (a) Agree. Implementation: January 1, 2006. The Department supports efficiency measures in the Titling and Registrations process; however, currently county motor vehicle offices do not have the capability to view all records held on the statewide database. For example, a county motor vehicle office would not be able to provide the most current information when issuing title record searches and duplicate titles. Further, county motor vehicle offices currently do not have access to the Titles archives that reside on microfilm. Therefore, counties would be unable to issue title histories, which are provided to citizens and other public entities, law enforcement and other state investigative agencies. The county version of the new CSTARs system will allow immediate access to "*County Only*" information. The same information will be collected at the centralized state server, and the design for county access to the central copy is not a documented requirement but an expectation of Phase II of the rewrite project that will serve to support reporting and decision making. This recommendation cannot be implemented until Phase I of the CSTARs rewrite is completed (November 2004) and Phase II is approved and completed, January 1, 2006.
- (b) Agree. Implementation: January 1, 2006. The Department will streamline the state office's transaction processes to the extent possible and will continue to seek efficient practices as an ongoing effort.

Recommendation No. 9:

The Department of Revenue should evaluate all program services provided at the state office to determine if there continues to be a need to operate a centralized office for each program and, also, if services provided in the state office could be provided by existing local offices.

Department of Revenue Response:

Agree. Implementation: January 1, 2006. See response to No. 8 above. The Department has and will continue evaluating all program services provided at the state office and streamline services wherever possible. It is important to note that many of the services provided in the state office are unique and cannot be provided by other entities at other locations. However, this recommendation will be implemented to the extent possible.

Issue All Title Documents at the County Level

We estimate that CSTARs Special Purpose Fund expenditures could be reduced by nearly \$1.3 million annually by allowing counties to issue all titles directly to the consumer. In addition to the state office, which provides titling and registration services to consumers directly, the Department of Revenue maintains a separate Titles Section that processes titles on behalf of the counties. The Department of Revenue's Titles Section is completely funded by the CSTARs Special Purpose Fund. The Titles Section issues title documents for title transactions originating in the counties. For county-processed titles, the counties typically issue title documents at the time of the transaction, whereas for those titles counties send to the Titles Section it takes from 24 hours to 3.5 weeks for the Titles Section to mail titles to customers.

Unlike titles processed by the state office title transactions processed by the Titles Section originate in county offices. For each title transaction processed, the county charges a fee of \$9.50, of which the county keeps \$4.00 and remits \$5.50 to the CSTARs Special Purpose Fund. On the basis of the Department's procedure, counties are to send title requests to the Titles Section if (1) the title is from out-of-state, (2) the title paperwork is questionable, or (3) the county is uncomfortable issuing the title at the time of the transaction. For these transactions, the counties review and compile the title application, collect the money from the consumer, and mail the paperwork to the Titles Section, which reviews the title application paperwork again for completeness and then issues the title. Generally, the Titles Section does not add any additional evaluation or information before issuing the title certificate. We could not determine the value of this additional layer of bureaucracy. Department data indicate that the Titles Section processed about 900,000 titles in Fiscal Year 2001, or about half of all titles processed in the State. The majority of titles processed by the Titles Section are out-of-state titles or titles with liens.

In addition to processing titles sent in by the counties, Titles Section staff also maintain a phone service center that answers about 118,000 calls per year on title questions from citizens, dealers, lien holders, and counties; provides training to county staff; and maintains and revises regulations and manuals. Our cost savings estimates do not include any costs associated with the phone center, county training, or procedures manual maintenance functions.

While we believe that the State should continue serving as a support system for the counties via its telephone assistance and training programs, we do not believe it is cost-beneficial for

the State to continue issuing title documents. Further, all five counties interviewed expressed interest in processing all title transactions and working more independently from the State. Additionally, members of the Executive Committee of the Colorado State Association of County Clerks and Recordors stated, "given the fact that few, if any, of the titles submitted to the Department actually receive more than a cursory review, it only makes sense to have the counties take on the responsibility of titling all motor vehicles and/or mobile homes at the county level." Although counties already perform the preliminary processing for these transactions, including accumulating and reviewing title application paperwork, collecting the fees, and mailing all associated documents to the State, there could be a need for a change in the amount of title fees distributed to counties in order for the counties to adjust to the increased volume of title documents issued at the county level. The costs of the transactions will need to be reviewed. If counties were to process all title transactions, duplicative review of title applications would be eliminated. Counties would issue the title documents to the consumer directly.

Recommendation No. 10:

The Department of Revenue should:

- a. Eliminate the State's current role in issuing titles for the counties.
- b. Determine, as part of the comprehensive cost study suggested in Recommendation No. 13, if additional reimbursement to the counties for processing titles is warranted.

Department of Revenue Response:

Agree. Implementation: January 1, 2006. We have begun and continue to refine the role of state staff in the oversight and management of the titles and registrations functions for the State. State employees will be deployed to new duties that would add value to this function. The focus of this new role will be to perform audit and compliance duties, statewide training, and enforcement tasks that will help achieve consistent results system-wide and help reduce titling and registration fraud. This ongoing transformation effort will enhance the services provided by both the state and counties and eliminate duplication of effort. Our ultimate goal will be to automate processes and provide services electronically. This change in our present

reality can only take place in conjunction with the implementation of the CSTARS rewrite effort, January 1, 2006.

Improve Oversight of Indirect Cost Allocations

We reviewed the Department's methodology for allocating departmental indirect costs to the CSTARS Fund, including the underlying assumptions used to charge indirect costs. We identified ongoing problems with the Department's oversight of indirect cost allocation assumptions.

About 14 percent of CSTARS Special Purpose Fund expenditures in Fiscal Year 2001 were in the form of indirect costs. The following table shows the history of indirect costs charged to the Fund beginning in Fiscal Year 1998.

Indirect Costs Charged to the CSTARS Fund Fiscal Years 1998 to 2003 (projected)	
Fiscal Year 2003 (projected)	\$1,538,973
Fiscal Year 2002 (requested)	\$1,482,763
Fiscal Year 2001	\$1,574,914
Fiscal Year 2000	\$1,151,152
Fiscal Year 1999	\$1,520,902
Fiscal Year 1998	\$1,498,126
Source: Department of Revenue: Six-Year History of CSTARS Indirect Cost Assessment, April 2002.	

The Department of Revenue has several "indirect service areas." These are general-funded divisions within the Department that, in addition to their own duties, provide support to other cash-funded departmental divisions. This support is considered by the Department to be an indirect service, or cost, that should be assigned to the supported divisions. By doing this, the Department prevents the General Fund from supporting cash-funded program activities. The Titles Section and CSTARS program are cash-funded by the CSTARS

Fund. The divisions currently providing indirect service support related to the Titles Section and CSTARS program include:

- **Office of the Executive Director (OED)** provides administrative oversight, accounting, and budgeting functions for titles and registrations.
- **Cash and Document Processing Division (CDP)** provides services such as data entry and mail support for titling- and registration-related services.
- **Information Technology Division (IT)** administers and maintains the CSTARS computer system.
- **Motor Vehicle Business Group (MVBG)** provides administrative oversight to the Titles Section and services such as microfilming title documents.

The Department's Accounting and Financial Services section calculates the costs of services provided by these four programs and charges the CSTARS Special Purpose Fund for the services; these charges are called indirect costs.

The amount of indirect costs charged to the CSTARS Special Purpose Fund from services provided by the OED is determined by figures approved by both the Joint Budget Committee and the Office of State Planning and Budgeting. Indirect costs charged by the CDP, IT, and MVBG divisions are based on various mathematical calculations. These calculations are included in a series of tables, located in the Department's Cost Accounting System (CAS), that are used to allocate costs attributable to more than one program. The CAS tables allocate costs based on percentages that are determined at the program level. For example, managers in the MVBG are responsible for determining the amount of time that staff in that division spend providing services to other program areas, such as titling and registration. Department staff put these assumptions into the CAS tables and use them to distribute the costs of the MVBG to the other programs.

The following table shows a CAS table for the MVBG administration function. This calculation uses information from the Department's timekeeping system to calculate the percentage of MVBG's staff time spent supporting various program areas, including titles and registration.

CAS Calculation Table for MVBG Administration	
Program Area	Percentage of Time
Administration	3%
Motor Carrier Services	15%
Driver Licenses	35%
Driver Control (enforcement)	22%
Vehicle Registration at state office	10%
Titles	10%
Emissions	5%
Total	100%
Source: Table from the Department of Revenue's Cost Accounting System.	

The Accounting and Financial Services section then applies the above percentages to the total costs in MVBG administration, and the resulting costs are charged back to program areas in the form of indirect costs. For example, if total MVBG administration costs are \$100, \$10 would be charged to the CSTARS Special Purpose Fund for the time that MVBG staff spent performing title functions.

Review CAS Assumptions

According to the Department, program managers are instructed to review their calculation percentages annually and make changes as necessary. If there are significant changes in the allocation percentages, the Accounting and Financial Services section will examine supporting information to see if the changes are appropriate. However, we found cases in which some allocation percentages could not be explained by supporting documentation. We requested the supporting documentation for 21 different CAS tables for the purpose of reviewing the underlying assumptions. In total, these tables supported indirect cost charges of \$1.1 million to the CSTARS Special Purpose Fund in Fiscal Year 2001 (or 71 percent of total indirect costs paid for by the Fund). The Department could only provide supporting documentation for 13 of the 21 CAS tables we requested. According to

department staff, supporting documentation for eight of the tables cannot be provided by the system. It took department staff about three months to provide supporting documentation for two of the CAS tables requested. The Department's inability to locate supporting documentation in a timely manner indicates that the Department is not reviewing the underlying assumptions for allocating indirect costs and thus is likely missing errors resulting in misallocation of costs.

For 2 of the 13 indirect cost tables we were able to test, we found discrepancies resulting in possible overcharges to the CSTARs Special Purpose Fund of about \$62,000 over the last two fiscal years. Department staff and program staff could not explain these discrepancies.

In Fiscal Year 2001, 14 percent of all CSTARs Special Purpose Fund expenditures consisted of indirect costs. The errors we found in the CAS tables indicate a need for the Department to conduct a thorough review of all CAS tables. Since the CAS system is used by the Department to allocate costs to various program areas throughout the Department, periodic reviews of the supporting information used to construct the Department's CAS tables should be conducted both by the program area responsible for that information and by the Accounting and Financial Services section to ensure that these tables, and the resulting allocation of indirect costs, are as accurate as possible.

Recommendation No. 11:

The Department of Revenue should strengthen its controls over indirect cost allocations by performing scheduled reviews of supporting assumptions. These reviews should be performed both by the Accounting and Financial Services section staff and by the program managers generating the distribution assumptions to ensure that documentation and resulting allocations are accurate.

Department of Revenue Response:

Agree. Implementation: October 1, 2002. The Department, through Accounting and Financial Services (AFS) and program managers, already conducts scheduled reviews (annually) of the supporting assumptions. We will reiterate to program managers the importance of this review. AFS has relied on the program managers to maintain the supporting detail documents. To the extent practical, AFS will obtain and maintain on file the supporting detail documents by October 1, 2002.

System Enhancements

Chapter 3

Background

Problems identified and discussed in Chapters 1 and 2 indicate a need for extensive review and planning for the future of the titling and registration process in Colorado. The Department should clearly identify a plan for the future of the titling and registration functions, the costs of performing these functions, and an equitable payment method for the costs. Additionally, it is critical that the Department have a clearly identified vision for the future of the titling and registration functions prior to moving forward with designing and replacing the CSTARs system.

E-Government Solutions Provide Cost and Service Benefits

Online motor vehicle registration and titling services can result in several benefits and cost savings. According to an August 2001 study conducted by the American Association of Motor Vehicle Administrators (AAMVA), processing e-government transactions costs 65 percent less than over-the-counter transactions. While the cost of processing transactions decreases, revenues often increase as a result of the added convenience to consumers of online transactions. Online services shorten transaction times and eliminate many of the paper handling and error resolution tasks performed by motor vehicle agency staff. These services also allow customers an alternative way to access information. Online transactions are available 24 hours a day, 7 days a week, and can be completed without having to travel to a motor vehicle office. Further, online services provide a benefit to walk-in customers by reducing wait times and increasing staff availability in local offices. The following table demonstrates some of the titling and registration services currently offered by other states.

Availability of E-Government Titling and Registration Services	
Type of Service Offered Electronically	Number of States Currently Offering Service
Forms Download	50
Registration Renewal	31
License Plate Inquiry	11
License Plate Purchase	7
Vehicle Records	6
Title and Lien Information	5
Dealer/Motorcycle/Trailer Licensing/ Registration	3
Fleet Renewal	2
Vehicle Registration Fee Quotes	2
Duplicate Titles	1
Source: Office of the State Auditor's analysis of data from the American Association of Motor Vehicle Administrators.	

Currently the only titling and registration services available online in Colorado are information on frequently asked questions and downloadable motor vehicle forms and applications. Senate Bill 00-015 represents the Legislature's intent to modernize the vehicle titling and registration processes. This Bill mandated that the Department begin implementation of electronic titling by July 1, 2001, with statewide completion by July 1, 2006. This Bill requires the Department to maintain title records electronically. Department staff have met with some outside vendors, completed a needs assessment, and worked with Titles Section staff to determine the best method for implementation. However, a system for maintaining electronic titles is not near completion at this time.

According to department staff, providing Colorado citizens with an easier, faster, and more convenient way to do business with the State is a top priority. As a result, the Department is planning to develop Web-based service options. However, the Department is not anticipating any improvements or additions in online services until the second phase of the CSTARS replacement, which will not occur until Fiscal Year 2005.

Recommendation No. 12:

The Department of Revenue should identify cost-effective e-government solutions for titling and registration and ensure compliance with legislative intent as expressed in Senate Bill 00-015. Any solutions implemented prior to the completion of the CSTARS replacement should be compatible with the new system.

Department of Revenue Response:

Agree. Implementation: January 1, 2006. The Department has put in numerous hours of effort discussing and planning for compliance with Senate Bill 00-015 and continues to work on alternate implementation scenarios. Nine distinct requirements defined from Senate Bill 00-015 were included in the RFP for the CSTARS rewrite project. Other e-government opportunities will be evaluated and implemented in conjunction with Phase II of the project, if approved, January 1, 2006.

Ensure Business Processes and System Changes Are Considered Before Developing New CSTARS System

With the CSTARS Fund balance declining rapidly, the Department of Revenue will need to make some tough decisions about how to ensure that adequate resources are available to perform titling and registration functions. Over time, the fees for titling and registration services have increased; however, there is no cost-related basis for the current fee structure or for which types of system transactions contribute money to the CSTARS Fund and which do not. Some of the problems identified during this audit include:

- **The titling and registration functions are fragmented.** As we discuss in Chapter 2, some titling and registration services are offered in the counties, while others are offered at the state office in Lakewood. Additionally, counties collect some title paperwork for which the State actually issues the title certificates. Fragmentation results in lack of accountability. During our audit department staff referred us from one division to another for answers to titling and registration process questions. Many times the division we were referred to did not have the answers and referred us directly back to the original division. For example, we

requested information from the Motor Vehicle Business Group (MVBG) on all transactions processed at the state office. After providing some information, the MVBG referred us to the Cash and Document Processing (CDP) Division. CDP staff had very limited knowledge of the processes at the state office. Four of the five counties we interviewed stated having similar problems determining which department staff are responsible for providing answers to titling and registration questions.

- **The funding for the system is piecemeal.** Fees are often raised as a reaction to additional needs for funding rather than as part of a well-planned strategy for the overall provision and maintenance of the titling and registration functions in Colorado. Likewise, county registration functions are cash-funded, while state registration functions are paid for with General Funds, with no apparent justification for the difference. There has never been an evaluation of systemwide costs and funding streams. As a result, the Department cannot justify the current fee structure and the way that the current titling and registration fees are split between the counties and the State.
- **The Advisory Committee's role is unclear.** Section 42-1-211(4)(a), C.R.S., creates the CSTARS Advisory Committee to oversee the operations, planning, and budgeting of the CSTARS Fund and system. The Advisory Committee is not currently able to perform its duties as stated in statute because the Department frequently does not involve the Committee in important aspects of the CSTARS Fund oversight. For example, by statute, the Committee is to have final approval over the CSTARS budget. However, according to committee members, they have difficulty understanding the budget and often get no more than a few days to review budget proposals developed by the Department before the proposals are forwarded to the Joint Budget Committee. The Advisory Committee would like to be more involved in creating the CSTARS budget and making presentations to the Joint Budget Committee. The Department and the Advisory Committee are working to improve this budget process through more frequent meetings and training on the State's budget process.
- **The Department does not have a clear plan in place for future e-government functions.** As discussed earlier, the Department does not currently offer any titling or registration transactions electronically. Although the CSTARS replacement project includes electronic government functions in the second phase, department staff could not provide information on what specific services will be offered, or how those services will be offered (e.g., over the Internet to the public or to car dealers or manufacturers via direct interfaces).

- **The Department does not track or analyze the number and types of transactions conducted.** As discussed in Chapter 1, the Department does not have a full year of transaction data for Fiscal Year 2002. As a result, the Department cannot plan future system functions, justify changes or increases to the titling and registration fee structure, or track the titling and registration service volume.

Given the lack of attention to the fundamental titling and registration processing issues, we are concerned about the Department's plans to replace the current CSTARS system. The Department estimates that the first two phases of the system replacement project will cost approximately \$13 million over a period of three years. Without having clearly defined business goals, including defined modes of conducting business (e.g., over-the-counter transactions versus electronic transactions or government versus privatized services), the Department risks spending \$13 million to develop a system that will not meet the future titling and registration needs of the State.

The Income Tax Initiative Project (ITI) demonstrates problems the Department has had in the past completing system upgrades in a timely or cost-effective manner. In 1994 the Department of Revenue began the ITI project to develop a new income tax system. Problems noted in two independent reviews of the ITI project (including the March 2000 Office of the State Auditor Performance Audit and a January 1999 KPMG assessment of the ITI project plan) included (1) project system goals were poorly defined, (2) planning for the project was inadequate, (3) system contractors were not supervised, (4) design detail for the project was poor, and (5) no project completion goals/deadlines existed. The Department spent about \$12 million between Fiscal Years 1995 and 1999 before it halted the project to work on completing some other income tax filing projects on its old computer system. In November 1998 the Department hired an outside consultant who determined that "no less than a completely different approach to every aspect of the effort, from design to development to project management, must be implemented in the very near term to make the project viable."

Without a more clearly defined plan for titling and registration in Colorado, the Department may repeat the same mistakes in the CSTARS replacement project that it made in the ITI project, resulting in expenditure of millions of dollars with minimal benefit to the public who are paying for the system with their titling and registration fees. Some of the critical questions we believe that the Department must answer prior to moving forward with the system replacement include:

- How will titling and registration transactions be conducted in the future? What functions can be done electronically? What functions can car dealers, car manufacturers, manufactured home manufacturers, or lending institutions perform directly?

- Who should pay for the cost of the titling and registration system? For example, should the State, counties, taxpayers, or individuals titling and registering vehicles and manufactured homes pay for the system? Should all functions be cash-funded or should some functions remain general-funded?
- Who should be the main service provider for titling and registration services? Should the counties continue to be the main providers of titling and registration services; should the State maintain titling and registration offices; or should a third-party contractor provide titling and registration services?
- Who is ultimately accountable for titling and registration (e.g., counties, the State, or an independent third party)?
- How can consumers best be served?

Once the Department addresses major systemwide issues, it needs to take a hard look at funding. The current funding for CSTARS is piecemeal at best. The Department should work with the Advisory Committee to determine an appropriate method for obtaining information on county costs for performing titling and registration functions. Once the Department has a better understanding of systemwide costs, it should realistically evaluate potential revenue streams.

Recommendation No. 13:

The Department of Revenue should ensure that business processes and system changes (including those changes discussed in this report) are considered before developing the new CSTARS system. This should include identifying the costs of performing titling and registration in Colorado, the methods of paying for those costs, the fee structure, the specific modes of service provision, and the accountability for these functions.

Department of Revenue Response:

Partially Agree. Implementation: December 1, 2002, and ongoing. The Department partially agrees that formerly identified business process and system changes (including some of those identified in this report) should be considered before developing the new CSTARS system. It is the Department's opinion that these activities will be done during or in conjunction with, not before, the project launch of the CSTARS rewrite. The Department agrees that there are business process re-engineering opportunities, which include fee schedule realignments, role

and responsibility changes, and program cost realignments. The Department plans to revalidate existing business and technical requirements as part of the project discovery, scope, validation, and design phases of the project using a business practice known as Joint Application Design (JAD). The new system will allow the Department the ability to implement objectives that are derived from newfound vision and longer-term business process goals currently being developed by MVBG.

In regard to the Income Tax Initiative Project (ITI), the Department agrees that ITI failed. However, the Department disagrees with the audit findings. The existing leadership, including the Executive Director, the CIO, and the Director of Development, are mindful of the issues with the ITI project that caused its failure. The Department is conducting the CSTARS rewrite project in a completely different way utilizing IT and Project Management best practices. All key members of the RFP team, the evaluation and selection team as well as the purchasing and procurement support team have reviewed the original ITI audit reports. The CSTARS rewrite project will be complete and fully operational by July 2006 in all 64 county locations.

Statutes Governing Titling and Registration Need to Be Reviewed

Our review of statutes governing various titling and registration services identified several areas where statutory revision is needed. First, conflicting statutes have resulted in the Department's overcharging consumers for manufactured home titles since 1997. We estimate that overcharges for these transactions totaled nearly \$63,000 in Fiscal Year 2002. Second, the CSTARS statutes do not clearly describe the distribution of some titling and registration fees and do not cite all funding sources for the CSTARS Fund. The areas we identified where statutory clarification is needed include:

- **Manufactured home titles.** Section 38-29-138(1), (2), and (5), C.R.S., governs the fees allowed for the issuance of a manufactured home title, manufactured home title with a lien, and a duplicate manufactured home title. The statute sets fees for these transactions at \$5.50, \$5.50, and \$1.50 respectively. Section 38-29-139(1) and (2), C.R.S., governs the distribution of these fees by referring to another statute (Section 42-6-138(1) and (2), C.R.S.). However, Section 42-6-138(1) and (2), C.R.S., discusses the distribution of a \$9.50 fee and an \$8.20 fee. As a result, it is unclear how the manufactured home title fees of

\$5.50 (for titles and titles with a lien) and \$1.50 (for duplicate titles) should be distributed.

- **Funding sources for the CSTARS system.** Section 42-1-211(2), C.R.S., governs the funding streams for the CSTARS Special Purpose Fund. This statute refers to other statutory funding sources for the CSTARS Fund. During our review we identified three other statutory funding sources not referenced in the CSTARS enabling statutes, including military license plates (Section 42-3-115.5, C.R.S.), one-day dealer titles (Section 42-6-137(6), C.R.S.), and copies of motor vehicle records (Section 42-1-206(2)(a), C.R.S.). As a result, identifying all CSTARS funding sources is difficult.

The Department of Revenue has been charging incorrect fees for manufactured home titles and distributing those fees in the same manner as motor vehicle titles. Statutory revision is necessary either to increase manufactured home title fees so that they are comparable to motor vehicle title fees or to set up a separate distribution in statute for the manufactured home title fees. Additionally, with several types of revenues contributing to the CSTARS Fund that are not referred to by the CSTARS enabling legislation, it is difficult to ensure that all revenue sources for the CSTARS Fund have been identified.

Recommendation No. 14:

The Department of Revenue should work with the General Assembly to propose legislation clarifying the fees and distribution of fees in statute for manufactured home titles. Additionally, the CSTARS enabling statute should be changed to contain references to all statutory funding sources.

Department of Revenue Response:

Agree. Implementation: Fiscal Year 2003 Legislative Session. The preliminary work to seek legislation to clarify fees and the distribution of fees in statute for manufactured home titles and to change the CSTARS enabling statute to contain references to all statutory funding sources has begun and will be completed once the audit findings are no longer confidential. The Department will work with the General Assembly during the Fiscal Year 2003 legislative session to clarify statutory fees and fee distribution for all fees impacting motor vehicle title and registration.

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