

J00E00
Motor Vehicle Administration
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 10 Actual</u>	<u>FY 11 Working</u>	<u>FY 12 Allowance</u>	<u>FY 11-12 Change</u>	<u>% Change Prior Year</u>
Special Fund	\$145,913	\$160,059	\$164,768	\$4,709	2.9%
Contingent & Back of Bill Reductions	0	0	-733	-733	
Adjusted Special Fund	\$145,913	\$160,059	\$164,035	\$3,976	2.5%
Federal Fund	404	177	177	0	
Contingent & Back of Bill Reductions	0	0	-53	-53	
Adjusted Federal Fund	\$404	\$177	\$123	-\$53	-30.1%
Adjusted Grand Total	\$146,316	\$160,236	\$164,159	\$3,923	2.4%

- The Motor Vehicle Administration's (MVA) fiscal 2012 allowance increases by \$4.7 million, or 2.9%, when compared to the fiscal 2011 working appropriation; however, when accounting for the various across-the-board and contingent reductions included in the budget, the fiscal 2012 allowance increases \$3.9 million, or 2.4%
- The fiscal 2012 allowance includes a number of contingent reductions affecting health insurance. As shown, the contingent reductions for health insurance reduce the operating budget by \$785,901 and \$7,747 in the capital budget.
- Given that MVA is largely an administrative agency, the largest increase in its allowance is for personnel-related expenditures totaling \$3.4 million after the contingent reductions.

Note: Numbers may not sum to total due to rounding.

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PAYGO Capital Budget Data

(**\$ in Thousands**)

	Fiscal 2010	Fiscal 2011		Fiscal 2012
	<u>Actual</u>	<u>Legislative</u>	<u>Working</u>	<u>Allowance</u>
Special	\$20,331	\$22,895	\$21,249	\$17,741
Federal	\$1,177	\$323	\$798	\$0
Total	\$21,508	\$23,218	\$22,047	\$17,741

- The fiscal 2011 working appropriation decreases \$1.2 million compared to the legislative appropriation due to cash flow changes in a number of projects.
- The fiscal 2012 allowance decreases \$4.3 million due to a number of smaller system preservation projects ending in fiscal 2011.

Operating and PAYGO Personnel Data

	<u>FY 10 Actual</u>	<u>FY 11 Working</u>	<u>FY 12 Allowance</u>	<u>FY 11-12 Change</u>
Regular Operating Budget Positions	1,593.50	1,593.50	1,593.50	0.00
Regular PAYGO Budget Positions	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Regular Positions	1,593.50	1,593.50	1,593.50	0.00
Operating Budget FTEs	67.29	92.71	92.71	0.00
PAYGO Budget FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total FTEs	67.29	92.71	92.71	0.00
Total Personnel	1,660.79	1,686.21	1,686.21	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	63.42	3.98%
Positions and Percentage Vacant as of 12/31/10	73.00	4.58%

- The fiscal 2012 allowance does not alter the personnel complement compared to the fiscal 2011 working appropriation.
- The department’s vacancy rate is budgeted at 3.98% requiring 63.42 vacant positions throughout the fiscal year. As of December 31, 2010, the department had 73.0 vacant positions for a vacancy rate of 4.58%. The department has 17.0 positions that have been vacant longer than 12 months.

Analysis in Brief

Major Trends

Alternative Service Delivery Transactions: In its efforts to provide efficient and courteous service, MVA has focused on providing alternative means to complete transactions. This includes performing transactions online, at kiosks, through mail, or by phone. The goal is that 40% of all transactions be performed through alternative means, but the actual rate is 32% in fiscal 2010 and 33% in fiscal 2011 and 2012. **The Department of Legislative Services (DLS) recommends that MVA discuss what other transactions can be focused on to increase the percentage of alternative service transactions and how it intends to meet the 40% goal. DLS also recommends that MVA discuss what impact the tax clearance provision contained in the Budget Reconciliation and Financing Act (BRFA) of 2011 might have on the alternative services delivery goal.**

Average Customer Wait Time Declines: One of the goals of increasing alternative service transactions is to reduce the overall wait time and improve the customer experience. The average customer wait time declined in fiscal 2010 to 31 minutes and is projected to remain at that level in fiscal 2011 and 2012, despite marginal increases in alternative service delivery. **DLS recommends that MVA should discuss why the calculation of the measure was changed and why customer wait times are not decreasing further in fiscal 2012 if alternative delivery transactions are increasing.**

Operating Cost Per Transaction Is Increasing: Operating cost per transaction is an indication of “whether MVA business practices and programs are increasingly cost effective through the employment of better technology and operational practices.” From fiscal 2001 to 2005, the cost per transaction had been declining; however, since fiscal 2005, the price has been increasing with a significant increase in fiscal 2010. **DLS recommends that the department discuss why the cost increased so much in fiscal 2010 and what actions are being taken to reduce the cost per transaction.**

Issues

Summary of Audit Findings: In October 2010, the Office of Legislative Audits issued its audit report for MVA. In a letter dated December 1, 2010, the Joint Audit Committee asked the budget committees to consider the audit findings while making their budget decisions. The issue provides a summary of the 13 audit findings, of which 2 were repeat findings. **DLS recommends that MVA discuss the audit findings with the budget committees and what steps it has taken to resolve the audit findings.**

REAL-ID Update: The REAL-ID Act requires federal agencies to only accept state-issued driver’s licenses and personal identification cards which have met certification standards by May 11, 2011. According to MVA, it has met 29 of the 39 benchmarks required for full compliance. Of the 10 remaining benchmarks, MVA reports that it has partially met 6, and 4 are pending. **DLS**

recommends that MVA discuss in further detail with the committees what it means if the State is unable to meet all of the benchmarks, even if the benchmarks are out of the State’s control. In addition, MVA should describe and discuss what impact Central Issuance and the REAL-ID rules will have on individuals as they attempt to obtain a driver’s license or personal identification card.

Review of BRFA Provisions Relating to MVA: The BRFA of 2011 include two provisions that affect MVA. The first provision would implement additional fees for individuals that accumulate more than five points or were convicted of driving under the influence or while influenced. The second provision would not allow individuals to have their license or registration renewed if they had not made all of their tax payments. **DLS recommends that MVA discuss with the committees the two separate BRFA of 2011 provisions and any administrative issues with implementing the two provisions.**

Operating Budget Recommended Actions

1. Concur with Governor’s allowance.

PAYGO Budget Recommended Actions

1. Concur with Governor’s allowance.

Updates

Auditing the Maryland Automobile Insurance Fund’s Use of Driver Records: The 2010 *Joint Chairmen’s Report* included committee narrative asking MVA to conduct a random audit of driving records obtained by the Maryland Automobile Insurance Fund (MAIF) from MVA to determine if the records were handled properly. The audit was to identify those records used by MAIF to issue insurance policies. For those not used for insurance policies, MVA was to determine if MAIF complied with the Driver Privacy Protection Act. In its audit of MAIF, MVA found **no evidence** that MAIF was mishandling driving records.

J00E00 – MDOT – Motor Vehicle Administration

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Motor Vehicle Administration
Maryland Department of Transportation

Budget Analysis

Program Description

The Motor Vehicle Administration (MVA) is responsible for supplying motor vehicle services to the citizens of Maryland. These services include:

- licensing all passenger and commercial drivers;
- registering and titling vehicles;
- issuing tags and permits for persons with a disability;
- providing photo identification cards for nondriver residents;
- regulating motor vehicle dealers, vehicle rental companies, and driver education schools; and
- administering the compulsory insurance compliance program, vehicle emissions inspection program, and driver safety program.

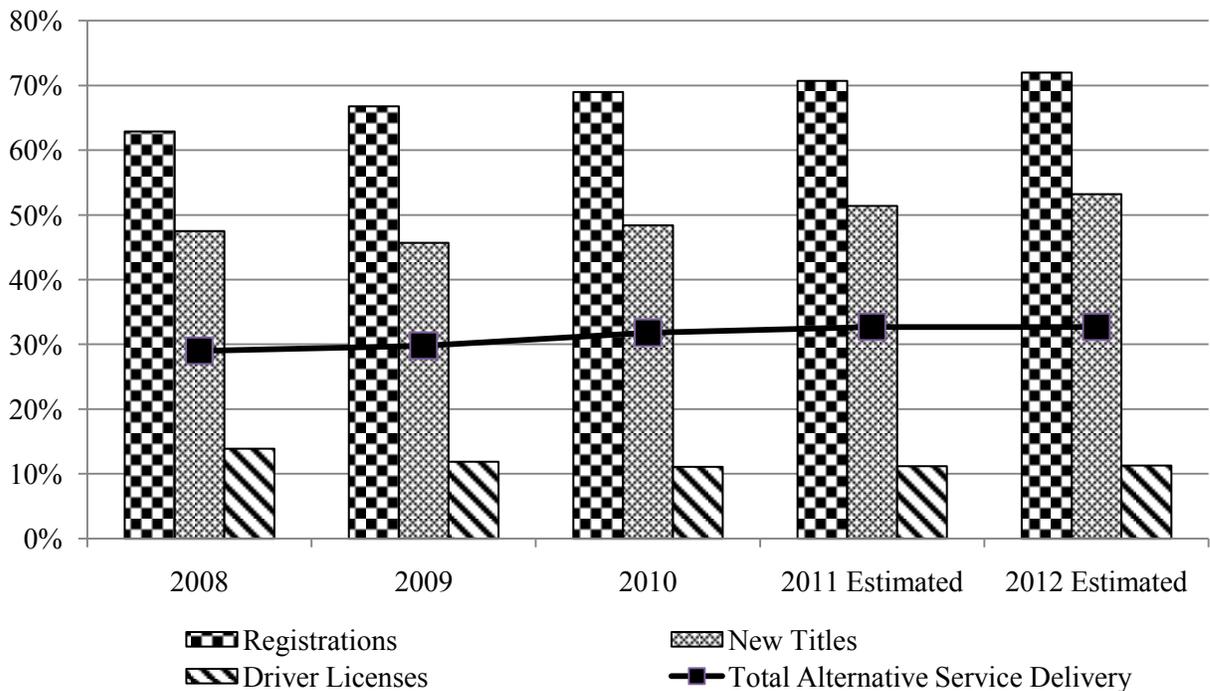
MVA serves customers through a network of branch offices, e-MVA facilities (kiosks and the Internet), a telephone call center, a mobile service center, and Vehicle Emissions Inspection Program stations.

Performance Analysis: Managing for Results

MVA's mission is "to provide efficient and courteous service." To meet this mission, one goal of MVA is to provide effective and efficient business processes. This can be achieved through the increased use of alternative service transactions that are defined as transactions performed online, at MVA kiosks, mail-in, or the telephone call center. The more transactions are processed through alternative means, individuals will have reduced wait times or not have to visit branch offices. Overall, total transactions declined in fiscal 2010 as vehicle purchases declined and vehicle emission inspections declined. Transactions are expected to begin to increase in fiscal 2011 and grow slightly in fiscal 2012.

Since fiscal 2000, MVA has made significant information technology (IT) investments to increase the number of alternative transactions as a way to reduce customer wait times and improve the customer experience. The department has developed a goal that 40% of all transactions should be completed through alternative means. As shown in **Exhibit 1**, in fiscal 2010, the level of alternative service transactions increased to 32%; however, this was due to the overall number of transactions declining and the overall level of alternative transactions remaining constant. In fiscal 2011 and 2012, the number of alternative service transactions is expected to increase faster than all transactions increasing the percentage to 33%.

Exhibit 1
Motor Vehicle Administration
Alternative Service Delivery Transactions
Fiscal 2008-2012



Source: Motor Vehicle Administration

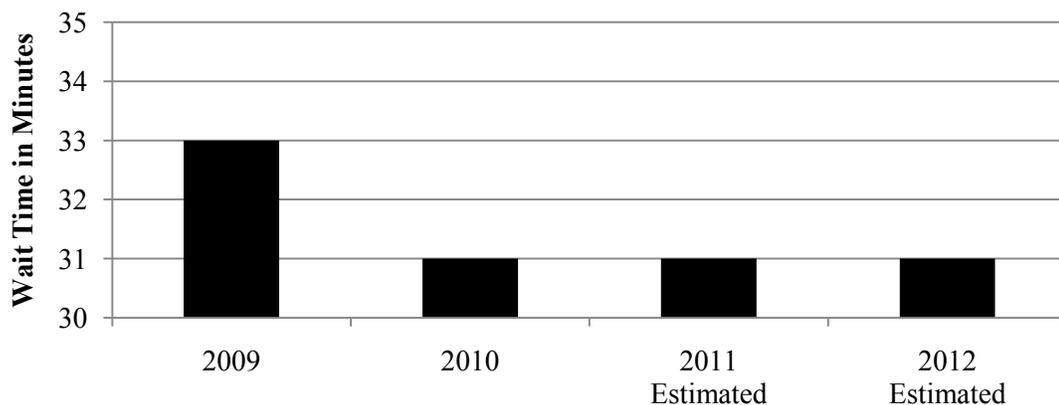
As Exhibit 1 shows, in looking at specific types of services one can see that certain services are more popular as an alternative service delivery option. Specifically, registrations and new titles each are over or near 50% utilization for alternative service delivery. To help facilitate even more registrations being performed through alternative transactions, MVA announced in January 2011 that individuals will have to use an alternative service delivery mechanism for registration renewals unless there is an administrative flag on their account. Furthermore, the percent of new titles issued

electronically is expected to reach 50% in fiscal 2011. This would seem to indicate that transactions that generate significant revenue, and likely have the highest volume, already capitalize on alternative technology. To increase the level of alternative service delivery transactions, MVA will likely need to focus on other transactions that may not be of the everyday variety.

One area that MVA may need to improve on is driver’s license renewal. In fiscal 2010, 11.1% of driver’s licenses were renewed by mail. Efforts to improve the utilization for driver’s license renewal and other transactions may be impeded by two policy issues. First, the Budget Reconciliation and Financing Act (BRFA) of 2011 proposes to require MVA to not issue registrations or driver’s licenses to individuals with outstanding tax bills. Second, the REAL-ID Act may limit MVA’s ability to issue driver’s licenses through alternative means. **The Department of Legislative Services (DLS) recommends that MVA discuss what other transactions can be focused on to increase the percentage of alternative service transactions and how it intends to meet the 40% goal. DLS also recommends that MVA discuss what impact the tax clearance provision contained in the BRFA of 2011 might have on the alternative services delivery goal.**

One goal of increasing alternative service delivery transactions is to reduce costs as well as customer wait times. MVA had been tracking the average customer wait time; however, the measure was changed in the 2011 session from the “perceived” customer wait time to the actual visit time. **Exhibit 2** indicates that the actual average visit time was 33 minutes in fiscal 2009 and declined to 31 minutes in 2010. Given the estimated increase in alternative transactions in fiscal 2011 and 2012, one would expect the average wait time to decrease. **DLS recommends that MVA should discuss why the calculation of the measure was changed and why customer wait times are not decreasing further in fiscal 2012 if alternative delivery transactions are increasing.**

Exhibit 2
Average Customer Visit
Fiscal 2009-2012



Source: Motor Vehicle Administration

The 2011 attainment report notes that the cost per transaction for MVA is an indication of “whether MVA business practices and programs are increasingly cost-effective through the employment of better technology and operational practices.” The target goal for MVA is \$14.00 per transaction by fiscal 2012. As shown in **Exhibit 3**, the cost per transaction had steadily decreased from \$17.37 in fiscal 2001 to a low point of \$12.50 in fiscal 2005. Since fiscal 2005, the cost per transaction has been increasing with a sizable jump in fiscal 2010. MVA indicates part of the reason for the increase is that the number of transactions declined. **DLS recommends that the department discuss why the cost increased so much in fiscal 2010 and what actions are being taken to reduce the cost per transaction.**

Exhibit 3
Operating Cost Per Transaction
Fiscal 2001-2010



Source: Motor Vehicle Administration

Proposed Budget

The fiscal 2012 allowance increases \$4.7 million, or 2.9%, compared to the fiscal 2011 working appropriation. When accounting for the various across-the-board and contingent reductions, the allowance increases \$3.9 million, or 2.4%, as shown in **Exhibit 4**.

Exhibit 4
Proposed Budget
MDOT – Motor Vehicle Administration
(\$ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
2011 Working Appropriation	\$160,059	\$177	\$160,236
2012 Allowance	<u>164,768</u>	<u>177</u>	<u>164,944</u>
Amount Change	\$4,709	\$0	\$4,709
Percent Change	2.9%		2.9%
Contingent Reductions	-\$733	-\$53	-\$786
Adjusted Change	\$3,976	-\$53	\$3,923
Adjusted Percent Change	2.5%	-30.1%	2.4%

Where It Goes:

Personnel Expenses

Restoration of furloughs.....	\$1,053
Employee and retiree health insurance net of contingent reduction	1,006
Employees’ retirement system	1,113
Workers’ compensation premium assessment	306
Turnover adjustments.....	318
Overtime earnings.....	-310
Additional assistance.....	-123
Other fringe benefit adjustments.....	28

Other Changes

Rent primarily for the new Baltimore City branch office	615
Security services largely for the cost of using Maryland Transportation Authority Police as positions become vacant.....	431
Computer maintenance contracts due to customized programs	167
Credit card fees due to normal growth and the expanded use of new kiosks.....	326

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Where It Goes:

Management studies based upon fiscal 2010 actual spending	67
Administrative hearings per Department of Budget and Management instructions	-351
Postage costs due to reductions in mailing and printing of vehicle registration renewal notices	-223
Data processing	-195
Printing due reduce mailing and printing of vehicle registration renewal notices	-188
Telephone expenditures partially attributable to lower volume of calls due to the legal presence law	-110
Other	-7
Total	\$3,923

Note: Numbers may not sum to total due to rounding.

Impact of Cost Containment

The fiscal 2012 budget reflects several across-the-board actions. In fiscal 2012, MVA’s share of the reduction is \$793,648 (\$785,901 in operating expenditures and \$7,747 in capital expenditures) in special funds due to changes in employee health insurance. To the extent that MVA has positions abolished under the Voluntary Separation Program, additional reductions will be implemented by the Administration.

Other Changes

Given that MVA is largely an administrative agency, the largest increase in the allowance is for personnel-related expenditures totaling \$3.4 million. Specific personnel increases include the following:

- \$1.1 million for payments to the employees’ retirement system;
- \$1.1 million for the restoration of furloughs;
- \$1.0 million net increase for health insurance related expenditures;
- \$0.3 million for the workers’ compensation premium assessment; and
- \$0.3 million for turnover adjustments.

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The other major changes in the allowance include:

- \$0.6 million increase in rent payments largely associated with the new Baltimore City branch office;
- \$0.4 million increase for security services contract due to an increased reliance on Maryland Transportation Authority Police instead of MVA police;
- \$0.3 million increase in the fee that MVA pays for credit card transactions due to increased usage with the roll-out of additional kiosks;
- \$0.2 million increase in computer maintenance contracts due to customized programs;
- \$0.4 million decrease in administrative hearing costs based upon the cost allocation from the Department of Budget and Management (DBM);
- \$0.4 million decrease in printing and postage costs due to a new program to reduce the number of mailings associated with vehicle registration renewals; and
- \$0.1 million decrease in telephone expenditures due that is partially attributable to a lower volume of telephone calls due to the legal presence law.

PAYGO Capital Program

Program Description

The Facilities and Capital Equipment Program provides funds for new capital facilities renovations to existing facilities, the development of major new IT systems, and the purchase of capital equipment.

Fiscal 2011 to 2016 Consolidated Transportation Program

The fiscal 2012 allowance provides \$17.7 million, a decrease of \$4.3 million compared to the fiscal 2011 working appropriation. As shown in **Exhibit 5**, a majority of the funding (\$13.8 million) is for system preservation projects. The largest major ongoing project is the alternative service delivery systems, known as the e-MVA service delivery system, which provides for the development and implementation of MVA services through the Internet, kiosks, and telephone. The project totals \$2.0 million in fiscal 2012.

Exhibit 5
Major Ongoing Motor Vehicle Administration Projects
Fiscal 2012
(\$ in Thousands)

<u>Jurisdiction</u>	<u>Project Description</u>	<u>2012</u>	<u>Total Cost</u>
Statewide	e-MVA Service Delivery Systems	\$2,005	\$22,389
Statewide	System Preservation Minor Projects	13,806	Ongoing
Statewide	REAL-ID Act	857	4,903
Statewide	Capital Salaries	1,073	Ongoing
Total Major Projects and Capital Facilities		\$17,741	\$27,292

MVA: Motor Vehicle Administration

Source: Maryland Department of Transportation, 2011-2016 *Consolidated Transportation Program*

Fiscal 2011 and 2012 Cash Flow Analysis

Exhibit 6 shows that the fiscal 2011 working appropriation decreases \$1.2 million compared to the legislative appropriation due to cash flow changes in a number of smaller projects. The fiscal 2012 allowance is \$4.3 million less than the working appropriation due to a number of projects ending in fiscal 2011.

Exhibit 6
Cash Flow Changes
Fiscal 2010-2012
(\$ in Millions)



Source: Maryland Department of Transportation, 2011-2016 *Consolidated Transportation Program*

Issues

1. Summary of Audit Findings

In October 2010, the Office of Legislative Audits issued its audit report for MVA. In a letter dated December 1, 2010, the Joint Audit Committee asked the budget committees to consider the audit findings while making their budget decisions. **Exhibit 7** summarizes the 13 audit findings and agency responses, of which 2 were repeat findings.

Exhibit 7 MVA Audit Findings and Response

Audit Finding

MDOT Response

Finding 1: MVA did not verify reports used to identify cases requiring review were complete and, as a result, administrative actions were not always taken.

Concur with recommendations. MVA is working with its information technology development staff to establish electronic data tracking procedures and to facilitate data verification by December 2011. The issue of license revocations has been resolved. Any individual whose record was not properly processed has been reviewed.

Finding 2: MVA lacked adequate controls to ensure penalties were properly approved and recorded in the driving records.

Concur with recommendations. MVA conducted a review of its penalty determination approval process and a dual sign off approval process has been implemented

Finding 3: MVA lacked adequate controls to ensure penalties were properly approved and recorded in the driving records.

Concur with recommendations. MVA will update established procedures relating to record entry audits, ensure electronic audit documentation, and immediately removed employee access.

Finding 4: Sensitive personal and financial information was not adequately protected.

Concur with recommendations. MVA has updated its systems to provide adequate protection over such information. A review of the system did not reveal any inappropriate use of the data.

Finding 5: Monitoring and access controls over critical systems were not adequate.

Concur with recommendations. MVA has updated its policy regarding the reviews of MVA user access rights to ensure that the current access is accurate and reflects job duties.

Finding 6: Controls over the virtual server environment were not adequate.

Concur with recommendations. Public facing web servers are now separate and additional measures have been taken to ensure that necessary updates are tested and installed.

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Audit Finding

MDOT Response

Finding 7: Proper controls were not established over the license plate and registration sticker inventories at the central warehouse.

Concur with recommendation. Administrative rights for inventory custodians have been changed to “read only” to prevent modifications to inventory records.

Finding 8: License plates and registration stickers issued to certain automobile dealerships were not adequately accounted for.

Concur with recommendation. An audit of the contractor was completed and the results were forwarded to the contractor for appropriate action to be taken.

Finding 9: Program cases were not adequately monitored.

Concur with recommendation. MVA will update established procedures and make system modifications relating to the override of program violations. Procedures for case managers will be developed.

Finding 10: Adequate accountability and control had not been established over certain collections.

Concur with recommendation. All checks are secured in a locked storage cabinet and signed off by two employees.

Finding 11: Independent supervisory reviews were not always performed to ensure the proper processing of insurance lapse information.

Concur with recommendation. System enhancements will be completed by Spring 2011 and random supervisory reviews will be conducted.

Finding 12: Adequate controls were not established over disbursement transactions.

Concur with recommendation. A solution was found and legislative auditors confirmed this on March 9, 2010.

Finding 13: MVA did not always sufficiently investigate possible fraudulent activity.

Concur with recommendations. MVA will ensure that proper documentation will be included whenever expended testing is conducted on employee fraud investigations.

Note: Bold denotes repeat findings

MVA: Motor Vehicles Administration

Source: Office of Legislative Audits

DLS recommends that MVA discuss the audit findings with the budget committees and what steps it has taken to resolve the audit findings.

2. REAL-ID Update

Background

The REAL-ID Act requires federal agencies to only accept state-issued driver's licenses and personal identification cards which have met certification standards by May 11, 2011. The Department of Homeland Security (DHS) promulgated regulations clarifying the Act's provisions in mid-January 2008. The final regulations provide states the opportunity to extend the timeline to implementation, provided that 18 benchmarks were met. States had until December 1, 2009, to apply for an extension that would run through May 11, 2011, but DHS extended the deadline indefinitely since almost all of the states were unable to complete the benchmarks. While the deadline was being extended, MVA submitted its material compliance checklist in November 2009 and had achieved every benchmark but one. Since that time, MVA has updated its material compliance status and MVA is 1 of only 11 states to have fully completed the material compliance checklist.

By May 11, 2011, states will need to be determined to be fully compliant with REAL-ID. This will involve a statement indicating that compliance has been reached from the state, a letter from the state Attorney General confirming the state has the legal authority to impose the requirements necessary to meet the standards established, a description of the state's exception and waiver process, and the state's security plan.

To assist states in the enrollment process, DHS regulations provide the following:

- the enrollment of individuals born after December 1, 1964, must be completed on December 1, 2014; and
- all other individuals completed by December 1, 2017.

Status Update

By February 10, 2011, MVA will need to file documents certifying that it is in full compliance with the REAL-ID Act. Then beginning on May 11, 2011, MVA will need to issue fully compliant licenses. According to MVA, it has met 29 of the 39 benchmarks required for full compliance. Of the 10 remaining benchmarks, MVA reports that it has partially met 6 benchmarks and 4 benchmarks are pending. Of the 6 partially met benchmarks, MVA indicates 3 are expected to be met before the full compliance deadline and the 3 remaining are expected to be met when Central Issuance is implemented in fall 2011.

The four pending benchmarks are a result of DHS not having the technical infrastructure in place to support electronic verification. The four benchmarks include the electronic verification of birth records, electronic verification of State Department issued documents; electronic verification of REAL-ID driver's licenses and identification cards with the state of issuance; and, electronic verification by searching databases in other states to determine if an applicant has already been issued a driver's license or REAL-ID identification. Part of the issue with these searchable databases is that

there has to be one coordinated system to search the 50 state databases of information. Creating and paying for such a search engine is a complicated and expensive endeavor.

Based upon the information provided, it would appear that MVA will not be able to meet the deadline for full compliance. The biggest reason for this is the lack of national searchable databases. This problem is one that is likely not to be resolved in the short term and is a nationwide problem. Furthermore, MVA does not expect to transfer to a central issuance process until fall 2011, after the deadline for certification. It is not clear what this will mean for the State's ability to issue REAL-ID compliant driver's licenses; however, given that so few states were able to meet the materially compliant benchmarks, adjustments to the May 11, 2011 deadline will likely be required.

DLS recommends that MVA discuss in further detail with the committees what the May 11, 2011 deadline means particularly if the State is unable to meet all of the benchmarks, even if the benchmarks are out of the State's control. In addition, MVA should describe and discuss what impact Central Issuance and the REAL-ID rules will have on individuals as they attempt to obtain a driver's license or personal identification card.

3. Review of BRFA Provisions Relating to MVA

The BRFA of 2011 (House Bill 72/Senate Bill 87) includes several revenue generating provisions affecting MVA. Following is a summary of those provisions and related issues.

Bad Driver Fee Provision

The BRFA of 2011 contains a "bad driver" provision whereby individuals who amass more than 5 points would have to pay a fine of \$100 for every point thereafter. Furthermore, the bill provides that if an individual is convicted in Maryland or another state of driving while under the influence or driving while impaired would have to pay a fee of \$500 annually for a period of three years. If the individual cannot pay the fee, then his or her license is suspended unless the individual establishes a payment schedule. Michigan, New Jersey, and Texas have similar programs in place, and Virginia had the program in place for a year before repealing it.

MVA would retain revenues to administer the program. In fiscal 2012 and 2013, the revenue from the fee would be deposited with the general fund and then with the Emergency Medical Systems Operations Fund in subsequent fiscal years. The Administration estimates \$5.0 million in revenue for fiscal 2012.

Similar bills have been previously introduced in the 2005 and 2006 session in both houses. Senate Bill 275 in the 2005 session and Senate Bill 763 in the 2006 session each passed the Senate. There was a House crossfile with each Senate bill. The House never voted on any of the Senate bills and did not pass the House bills. The "bad driver" provisions could be viewed as regressive and adversely affecting those who could least afford to pay or to have their license suspended. In addition, the law already provides for penalties for these types of offenses. Conversely, this policy

would punish those drivers who would appear to be habitually in violation of the law and maybe remove them from the road.

Tax Clearance

Current law provides that MVA shall refuse to register or transfer a vehicle registration under certain conditions. The BRFA of 2011 includes a provision that states that MVA “shall refuse to register, renew, or transfer the registration of any vehicle” if the applicant has not paid all undisputed taxes and unemployment insurance contributions. Similar tax clearance language is proposed for the statute regarding the issuance of a driver’s license. The practical effect of the BRFA of 2011 provisions is that individuals will need to be current in their tax payments to obtain a registration or driver’s license. DBM estimates an additional \$20 million in revenue from this provision. The BRFA of 2011 assumes that the legislation will take effect June 1, 2011.

There are two issues for the General Assembly to consider regarding this provision. First, the bill assumes an effective date of June 1, 2011. While the department already has a flag system if individuals have outstanding warrants, there would need to be a new program developed to flag individuals with outstanding tax payments. It is not clear that an agreement regarding the exchange of information between the Comptroller’s office and the Department of Labor, Licensing, and Regulation can be reached by June 1, 2011. Second, from a policy perspective, many of the individuals who are delinquent in their tax payments are individuals who can ill afford not to have a registered vehicle or driver’s license. If individuals are denied a driver’s license or registration, they may continue to operate a vehicle illegally, which would only further exacerbate an individual’s problems if he or she is found to be operating a vehicle without a driver’s license or registration. It should be noted that the BRFA of 2005 contained similar tax compliance provisions that were ultimately removed. **DLS recommends that MVA discuss with the committees the two separate BRFA provisions and any administrative issues with implementing the two provisions.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Auditing the Maryland Automobile Insurance Fund’s Use of Driver Records

The 2010 *Joint Chairmen’s Report* included committee narrative asking MVA to conduct a random audit of driving records obtained by the Maryland Automobile Insurance Fund (MAIF) from MVA to determine if the records were handled properly. The audit was to identify those records used by MAIF to issue insurance policies. For those not used for insurance policies, MVA was to determine if MAIF complied with the Driver Privacy Protection Act. In its audit of MAIF, MVA found **no evidence** that MAIF was mishandling driving records.

The contract language between MVA and MAIF, as well as the Driver Privacy Protection Act, prohibits MAIF from disclosing driving records and personal information from a third party. Driver information obtained from MVA is displayed by MAIF for its own internal business purposes to its insurance agents. The information presented is based upon a proprietary formula that would not have any benefit to other insurance companies writing policies according to the MVA report. MAIF has added a statement on its website that the information presented is only for MAIF business. MVA intends to continue periodic audits to determine compliance with contractual and statutory privacy protections.

MAIF accessed 120,000 driver’s license records from October 2009 to January 2010, and MVA audited 58 driver’s licenses over that time. Of the 58 selected, 16 resulted in an insurance policy, and the remaining 42 did not have a MAIF-related policy. From the 42, 3 were randomly selected for further investigation and indentified the insurance agents involved. Each of the agents indicated that they did not use the information from MAIF to issue insurance from a third party.

MVA has identified three possible reasons why a MAIF agent may access a driving record and not issue a policy. First, the agents that MVA spoke with indicated that only about 20 to 33% of inquires result in a policy. Second, MAIF customers have a higher risk and premium so that multiple requests could be made on one driver’s license number as individuals search for the lowest price. Third, insurance companies ask for all records from a family which would require access to multiple driver records.

Current and Prior Year Budgets

Current and Prior Year Budgets Motor Vehicle Administration (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2010					
Legislative Appropriation	\$0	\$156,518	\$177	\$0	\$156,695
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	253	0	253
Cost Containment	0	-7,707	0	0	-7,707
Reversions and Cancellations	0	-2,899	-26	0	-2,925
Actual Expenditures	\$0	\$145,912	\$404	\$0	\$146,316
Fiscal 2011					
Legislative Appropriation	\$0	\$160,059	\$177	\$0	\$160,236
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$0	\$160,059	\$177	\$0	\$160,236

Note: Numbers may not sum to total due to rounding.

Fiscal 2010

Fiscal 2010 actual expenditures for MVA totaled \$146.3 million, a decrease of \$10.4 million from the legislative appropriation.

Special fund cost containment reduced the budget by \$7.7 million, with \$4.2 million reduced from the appropriation due to the delay in the procurement for the central issuance of driver's licenses and the elimination of State troopers at select MVA offices. Approximately \$3.5 million was reduced from the budget for the statewide furlough plan and the elimination of vacant positions.

Special fund cancellations totaled \$2.9 million, with \$1.0 million in health insurance, \$1.0 million in electricity, and \$0.9 million in other contractual services.

Federal fund budget amendments totaled \$0.3 million to fund information technology improvements.

Federal fund cancellations totaled approximately \$26,000 for data processing expenditures relating to the commercial driver's license information system modernization grant.

Audit Findings

Audit Period for Last Audit:	December 1, 2006 – July 9, 2009
Issue Date:	October 13, 2010
Number of Findings:	13
Number of Repeat Findings:	2
% of Repeat Findings:	15%
Rating: (if applicable)	

- Finding 1:** MVA did not verify reports used to identify cases requiring that reviews were complete and, as a result, administrative actions were not always taken.
- Finding 2:** MVA lacked adequate controls to ensure penalties were properly approved and recorded in the driving records.
- Finding 3:** MVA lacked adequate controls over certain critical transactions on driving records.
- Finding 4:** Sensitive personal and financial information was not adequately protected.
- Finding 5:** Monitoring and access controls over critical systems were not adequate.
- Finding 6:** Controls over the virtual server environment were not adequate.
- Finding 7:** Proper controls were not established over the license plate and registraion sticker inventories at the central warehouse.
- Finding 8:** License plates and registration stickers issued to certain automobile dealerships were not adequately accounted for.
- Finding 9:** Program cases were not adequately monitored.
- Finding 10:** Adequate accountability and control had not been established over certain collections.
- Finding 11:** Independent supervisory reviews were not always performed to ensure the proper processing of insurance lapse information.
- Finding 12:** **Adequate controls were not established over disbursement transactions.**
- Finding 13:** **MVA did not always sufficiently investigate possible fraudulent activity.**

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
MDOT – Motor Vehicle Administration**

<u>Object/Fund</u>	<u>FY 10 Actual</u>	<u>FY 11 Working Appropriation</u>	<u>FY 12 Allowance</u>	<u>FY 11 - FY 12 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,584.50	1,584.50	1,584.50	0.00	0%
02 Contractual	65.11	90.35	89.35	-1.00	-1.1%
Total Positions	1,649.61	1,674.85	1,673.85	-1.00	-0.1%
Objects					
01 Salaries and Wages	\$ 96,876,756	\$ 99,532,142	\$ 103,716,414	\$ 4,184,272	4.2%
02 Technical and Spec. Fees	3,744,987	3,590,497	3,577,474	-13,023	-0.4%
03 Communication	5,882,081	5,672,018	5,388,129	-283,889	-5.0%
04 Travel	143,485	153,884	97,911	-55,973	-36.4%
06 Fuel and Utilities	2,319,766	2,333,680	2,404,718	71,038	3.0%
07 Motor Vehicles	293,438	506,328	486,425	-19,903	-3.9%
08 Contractual Services	30,606,615	41,882,977	41,916,855	33,878	0.1%
09 Supplies and Materials	1,009,777	1,001,323	873,940	-127,383	-12.7%
10 Equipment – Replacement	44,858	50,967	44,341	-6,626	-13.0%
11 Equipment – Additional	3,731	39,554	34,477	-5,077	-12.8%
12 Grants, Subsidies, and Contributions	17,362	55,513	55,513	0	0%
13 Fixed Charges	5,373,394	5,417,059	6,348,262	931,203	17.2%
Total Objects	\$ 146,316,250	\$ 160,235,942	\$ 164,944,459	\$ 4,708,517	2.9%
Funds					
03 Special Fund	\$ 145,912,703	\$ 160,059,442	\$ 164,767,959	\$ 4,708,517	2.9%
05 Federal Fund	403,547	176,500	176,500	0	0%
Total Funds	\$ 146,316,250	\$ 160,235,942	\$ 164,944,459	\$ 4,708,517	2.9%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.

Fiscal Summary
MDOT Motor Vehicle Administration

<u>Program/Unit</u>	<u>FY 10 Actual</u>	<u>FY 11 Wrk Approp</u>	<u>FY 12 Allowance</u>	<u>Change</u>	<u>FY 11 - FY 12 % Change</u>
01 Motor Vehicle Operations	\$ 146,316,250	\$ 160,235,942	\$ 164,944,459	\$ 4,708,517	2.9%
03 Facilities and Capital Equipment	20,813,414	19,411,966	17,240,630	-2,171,336	-11.2%
08 Major IT Development Projects	694,432	2,635,000	500,000	-2,135,000	-81.0%
Total Expenditures	\$ 167,824,096	\$ 182,282,908	\$ 182,685,089	\$ 402,181	0.2%
Special Fund	\$ 166,243,388	\$ 181,308,408	\$ 182,508,589	\$ 1,200,181	0.7%
Federal Fund	1,580,708	974,500	176,500	-798,000	-81.9%
Total Appropriations	\$ 167,824,096	\$ 182,282,908	\$ 182,685,089	\$ 402,181	0.2%

Note: The fiscal 2011 appropriation does not include deficiencies.

**Budget Amendments for Fiscal 2011
Maryland Department of Transportation
Motor Vehicle Administration – Operating**

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Projected	\$253,446	Federal	Provides federal funds to continue the Odometer Fraud, Commercial Driver's License grants.
Projected	-\$300,000	Special	Delay in the Central Issuance project due to rebidding. Federal funds available and needed for Level 3 Security Features.
	300,000	Federal	
	\$0	Total	

Source: Maryland Department of Transportation

Budget Amendments for Fiscal 2011
Maryland Department of Transportation
Motor Vehicle Administration – Capital

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Pending	-\$1,646,000	Special	Adjusts the amended appropriation to agree with the anticipated expenditures for the current year as reflected in the Maryland Department of Transportation final <i>Consolidated Transportation Program</i> .
	475,124	Federal	
	\$1,170,876	Total	

Source: Maryland Department of Transportation