



**American Association of  
Motor Vehicle Administrators**

**AMERICAN ASSOCIATION OF MOTOR  
VEHICLE ADMINISTRATORS  
AND AFFILIATES**

**Agreed-Upon Procedures Performed on the  
National Motor Vehicle Title Information System**

*For the Year Ended September 30, 2018*



**and  
Report Thereon**





**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors and Management of the  
American Association of Motor Vehicle  
Administrators and Affiliates

We have performed the procedures described in Attachment I, which were developed based on guidance from the Department of Justice (DOJ) and agreed to by the American Association of Motor Vehicle Administrators (AAMVA) solely to assist you with the accounting records of the National Motor Vehicle Title Information System (NMVTIS), as operated by AAMVA, as of, and for the year ended, September 30, 2018. AAMVA's management is responsible for its accounting records and for its performance under the NMVTIS program. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures referred to below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are described in Attachment I.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of AAMVA, and is not intended to be and should not be used by anyone other than this specified party. However, we understand that a copy of this report will be provided to DOJ.

*Marcum LLP*

Washington, DC  
January 29, 2019



# AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

## AGREED-UPON PROCEDURES APPLIED TO NATIONAL MOTOR VEHICLE TITLE INFORMATION SYSTEM (NMVTIS) PROGRAM

### ATTACHMENT I

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#### PROCEDURES AND FINDINGS

Our procedures as described in our engagement letter with the American Association of Motor Vehicle Administrators (AAMVA) dated May 3, 2018, and as later amended in an engagement letter addendum, dated January 29, 2019, and the results are described below:

#### A. GENERAL

##### Procedures:

1. Perform inquiry procedures to obtain an understanding of NMVTIS expenditures and identify all fees collected by AAMVA in relation to NMVTIS.
2. Obtain an understanding of internal controls over NMVTIS program by reviewing internal control policies and procedures and by performing walkthroughs of key controls over NMVTIS program revenue and expenditures.
3. Perform inquiry procedures, including the review of any applicable grants and contracts, to inquire about whether AAMVA has complied with laws, regulations and the provisions of contracts and grant agreements associated with its NMVTIS program.
4. Perform inquiry and scanning procedures to observe if NMVTIS' revenues and expenses are separately identified and tracked within AAMVA's accounting system or records.
5. Perform inquiry and scanning procedures to observe if individual accounts or cost centers are established to control the NMVTIS funds.
6. Perform procedures to verify that amounts charged to the NMVTIS program, as reported in the NMVTIS program financial statements, are based on actual costs, fairly allocated and reasonable.

##### Results and Findings:

1. We had discussions with the Chief Financial Officer (CFO) and Controller to confirm our understanding of the NMVTIS program, how the fees collected by AAMVA are determined and the type of expenses incurred on the program.
2. We obtained and read AAMVA's financial policies and procedures related to cash receipts, cash disbursements, payroll and financial reporting process. We observed the key controls and performed walkthroughs of those internal controls to further our understanding of AAMVA's control environment. We observed that the financial reporting of AAMVA's programs, including the NMVTIS program, is subject to these same key financial reporting processes and controls. We did not observe any deficiencies related to AAMVA's financial policies and procedures.
3. We obtained management's representation that AAMVA has complied with laws, regulations and provisions of the contracts and grant agreements that could have a direct or material effect on the NMVTIS program. In addition, we read the contracts and grant agreements applicable to the NMVTIS program as part of these procedures and we did not observe any noncompliance by AAMVA.

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**PROCEDURES AND FINDINGS (CONTINUED)**

**A. GENERAL (CONTINUED)**

**Results and Findings (continued):**

4. Based on our inquiry of management and inspection of AAMVA's chart of accounts and reports provided to us during our procedures, we noted that NMVTIS revenues and expenses are separately identified and tracked within AAMVA's accounting system or records.
5. Based on our discussion of management and observation of AAMVA's accounting system and of the reports provided to us during our procedures, AAMVA created different cost centers to monitor and control NMVTIS funds.
6. We performed procedures as described below in sections B through E of this attachment to specified assets and liabilities, as reported in the NMVTIS schedule of specified assets, liabilities and net assets (attached to this report as Exhibit A) prepared by AAMVA, and we performed procedures as described below in sections F through K of this attachment to specified revenue and expenses, as reported in the NMVTIS schedule of specified revenue and expenses (attached to this report as Exhibit B) prepared by AAMVA, as follows:

**SPECIFIED ASSETS AND LIABILITIES**

**B. CASH AND CASH EQUIVALENTS**

**Procedures:**

1. Obtain a client-prepared listing of cash accounts associated with the NMVTIS program as of September 30, 2018.
2. Obtain a copy of the year-end bank reconciliation and bank statements. Inspect the bank reconciliation for any unusual or significant items.
3. Inspect the cash receipts and cash disbursements near year-end for any unusual or significant items.

**Results and Findings:**

1. We obtained a listing of the cash accounts associated with the NMVTIS program and noted that there are two bank accounts maintained separately for the NMVTIS program as of September 30, 2018.
2. We obtained and inspected the bank statements for the month ended September 30, 2018 and noted that the balances reported on the bank statements agreed with the amounts reported in AAMVA's general ledger for the two bank accounts. Therefore, there were no bank reconciliations as of September 30, 2018.
3. We inspected the cash receipts and cash disbursements on the September 2018 and October 2018 bank statements, and we found no unusual or significant items.

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**SPECIFIED ASSETS AND LIABILITIES (CONTINUED)**

**C. WORK-IN-PROCESS AND FIXED ASSETS**

**Procedures:**

1. Obtain a client-prepared listing of work in process (if any) and fixed asset accounts associated with NMVTIS program as of September 30, 2018.
2. Judgmentally select a sample of significant additions/disposals during the year to validate by vouching to supporting authorized cash disbursement documentation.
3. Recalculate depreciation expense for reasonableness and compliance with AAMVA policy.

**Results and Findings:**

1. We obtained and inspected the listing of fixed asset accounts associated with the NMVTIS program as of September 30, 2018 and noted that the schedule agreed to the detailed general ledger. There was no work-in-process as of September 30, 2018.
2. There were no additions to fixed assets nor were there any disposals during the year; therefore, it was not considered necessary to test any samples.
3. We obtained and inspected the depreciation schedule for NMVTIS fixed assets and performed a recalculation of the related depreciation expense for the year ended September 30, 2018. We noted that the depreciation expense was overstated by \$3,258 for the year. AAMVA was aware of the errors in the depreciation expense calculation in the accounting system and had been making manual entries every month to correct depreciation expense. However, this manual correcting entry for September 2018 was not yet recorded when the depreciation schedule was provided to us. A correcting entry was recorded during fieldwork to correct the overstatement noted above. The fixed assets were depreciated using the estimated useful lives determined by AAMVA.

**D. OPEN CREDIT – CONSUMER ACCESS**

**Procedures:**

1. Obtain a client-prepared listing of Open Credit – Consumer Access Accounts associated with the NMVTIS program as of September 30, 2018.
2. Judgmentally select a sample of open credits and test the reasonableness of the credit amount by recreating and comparing expected balance from the related income account balance and the credit percentage allowed for the program.
3. Scan the schedule for any transactions that appear unusual.

**Results and Findings:**

1. We obtained and inspected a detailed listing of the Open Credit – Consumer Access account associated with the NMVTIS program as of September 30, 2018, which comprised the unapplied monthly member credits. The open credits have a vesting period of one year and can be applied to the members' dues and fees, or to various NMVTIS-related initiatives upon approval by the Department of Justice (DOJ).

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**SPECIFIED ASSETS AND LIABILITIES (CONTINUED)**

**D. OPEN CREDIT – CONSUMER ACCESS (CONTINUED)**

**Results and Findings (continued):**

2. We recalculated the April 2018 addition to the Open Credit – Consumer Access account by obtaining the consumer access revenue for the month and multiplying it by 50% to determine the amount of credits the members are eligible to receive. We then allocated the credits to each jurisdiction based on each jurisdiction's consumer access transactions, and we found the allocation of credits to each jurisdiction to be reasonable.
3. We scanned the schedule of open credits and noted that there were no transactions that appear to be unusual.

**E. TEMPORARILY RESTRICTED NET ASSETS**

**Procedures:**

1. Obtain a client-prepared schedule of temporarily restricted net assets related to NMVTIS as of and for the year ended September 30, 2018.
2. Test the NMVTIS program income allocated to NMVTIS for accuracy and reasonableness.
3. Scan the schedule for any transactions that appear unusual.

**Results and Findings:**

1. We obtained and inspected the listing of temporarily restricted net assets associated with the NMVTIS program as of September 30, 2018 and noted that the schedule agreed to the detailed general ledger.
2. During the year ended September 30, 2018, program income of \$238,578 from fiscal year 2017 has been added to the temporarily restricted net assets. AAMVA management had discussions with DOJ during the year about the proper treatment of program income from NMVTIS, and DOJ communicated to AAMVA that the program income should be added to the temporarily restricted net assets balance, rather than to offsetting it against any losses incurred on the program in previous years and recording it as unrestricted income, which is how it was initially accounted for during fiscal year 2017.

The release from temporarily restricted net assets for the period ended September 30, 2018, which amounted to \$397,574 (see Exhibit A), includes various program expenses that were approved by DOJ, including grants and additional expenses to promote state compliance with NMVTIS program requirements, timely NMVTIS reporting of salvage vehicles, NMVTIS program demonstration video production, and other expenses related to NMVTIS system enhancements. We inspected the approval for these expenses without any exceptions.

3. We scanned the schedule of transactions and noted no unusual transactions.

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#### SPECIFIED REVENUE AND EXPENSES

#### F. STATE USER FEES, CONSUMER ACCESS FEES AND LEASED LINE FEES

##### Procedures:

1. Obtain a client-prepared schedule of fees associated with the NMVTIS program for the year ended September 30, 2018.
2. Judgmentally select a sample of fee transactions from this schedule to test the accuracy of the revenue activity.
3. Inspect monthly billings for NMVTIS and compare them with project summaries.

##### Results and Findings:

1. We obtained the client-prepared schedule of NMVTIS program revenue and agreed the schedule to the general ledger details without exception. For the year ended September 30, 2018, NMVTIS revenue before jurisdiction revenue sharing totaled \$8,927,464.
2. We used this schedule to judgmentally select a sample of transactions to test the accuracy of the reported revenue activity..
  - a. State user fees – Total state user fees are capped at \$4,884,865 as shown in Exhibit B. It is prorated to the different member states based on the number of registered vehicles per state. We recalculated the allocation of the \$4,884,865 among the states based on the information from the U.S. Department of Transportation on the number of registered vehicles per state to determine the allocation of state user fees, and we noted no exceptions.

For each state, AAMVA divided the prorated state user fees by 12 months to determine the monthly billing. We selected five monthly billings and four annual payments, and compared the amounts billed to the recomputed state fees, and found no exceptions.
  - b. Consumer access fees – Consumer access fees are based on tiered rates charged for each VIN search by the entities such as used car dealers, credit agencies and auto data companies. The rates ranged from \$0.18 to \$1.50 per VIN search. We selected 12 sample billings from different months in fiscal year 2018, consisting of invoices sent to twelve different companies, totaling \$332,083, and recalculated the invoiced amounts by multiplying the number of searches made by each company for the respective months with the applicable rates, and found no exceptions.
  - c. Leased line fees – Leased line fees pertain to resale of leased line connectivity to access AAMVAnet. The fees differ based on the type of the line subscribed to by the customer. There were no leased line fees earned during the year ended September 30, 2018.
3. Please refer to the procedures in items a-b above, which include our inspection of a sample of monthly billings.

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**SPECIFIED REVENUE AND EXPENSES (CONTINUED)**

**G. DIRECT LABOR EXPENSE**

**Procedures:**

1. Obtain a client-prepared listing of direct labor costs associated with the NMVTIS program for the year ended September 30, 2018.
2. Obtain a project costing labor detail report for the year ended September 30, 2018 and compare the monthly direct labor per the contract to the general ledger posting.
3. Scan the schedule for any transactions that are significant or unusual and investigate further as deemed appropriate.

**Results and Findings:**

1. We obtained the client-prepared listing of direct labor costs associated with the NMVTIS program for the year ended September 30, 2018. We traced the listing to the general ledger details generated from the accounting system and noted no exceptions.
2. We summarized the direct labor costs by employee and selected two employees with the highest direct labor cost charged to the NMVTIS program that were not tested in the previous years. To test the accuracy of direct labor charged to the NMVTIS program, we selected six pay periods to test for each employee and traced the number of hours charged to the NMVTIS program to the electronic timesheets approved by the employees' supervisors, and compared the authorized salary of the employees against Human Resources' schedule of authorized salaries and payroll reports. We did not find any exceptions.
3. We scanned the client-prepared listing of direct labor cost associated with the NMVTIS program, and we did not find any unusual transactions.

**H. JURISDICTIONAL REVENUE SHARING**

**Procedures:**

1. Obtain a client-prepared listing of revenue sharing contra-revenue for the NMVTIS program for the year ended September 30, 2018.
2. Test reasonableness of the contra-revenue account by judgmentally sampling transactions to inspect.
3. Scan the schedule for any transactions that are significant or unusual and investigate further as deemed appropriate.

**Results and Findings:**

1. We obtained and inspected the jurisdictional revenue sharing general ledger details for the NMVTIS program for the year ended September 30, 2018.

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**SPECIFIED REVENUE AND EXPENSES (CONTINUED)**

**H. JURISDICTIONAL REVENUE SHARING (CONTINUED)**

**Results and Findings (continued):**

2. We recalculated the jurisdiction revenue sharing for April 2018 by multiplying the consumer access revenue for the month by 50% to determine the amount of credits the members are eligible to receive. We then allocated the credits to each jurisdiction based on each jurisdiction's consumer access transactions, and we found the allocation of credits to be reasonable. In addition, we multiplied the fiscal year 2018 consumer access revenue by 50% to determine the estimated jurisdiction revenue sharing for the year ended September 30, 2018, and we found the jurisdiction revenue sharing amount to be reasonable.
3. We scanned the schedule of jurisdiction revenue sharing and noted that there were no transactions that appear to be unusual.

**I. CONSULTING, DATA CENTER EXPENSE AND OTHER DIRECT COSTS**

**Procedures:**

1. Obtain a client-prepared schedule of expenses associated with NMVTIS program for the year ended September 30, 2018.
2. Inspect contract labor detail reports, data center expenses, indirect expenses, timesheets, etc. to understand the manner in which expenses are charged to the program.
3. Inspect support for expenses over \$60,000. Verify that invoices were approved, charged to the correct period and coded to the correct account and projects.

**Results and Findings:**

1. We obtained the client-prepared listing of expenses charged to the NMVTIS program for the year ended September 30, 2018. We traced the listing to the general ledger details generated from the accounting system and noted no exceptions.
2. We inspected the listing of expenses and we did not note any unusual items charged to the NMVTIS program. AAMVA charged expenses to the NMVTIS program on an accrual basis.
3. The largest expense categories charged to the NMVTIS program are data center expenses, technology support costs and state support, and consulting services. There were three individual transaction above \$60,000, which totaled \$316,841. We traced these expenses to approved invoices and payments, and we noted no exceptions. We also tested the allocation of data center expenses between NMVTIS and other programs benefiting from the same services, and we noted no exceptions.

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**SPECIFIED REVENUE AND EXPENSES (CONTINUED)**

**J. DEPRECIATION**

**Procedures:**

1. Obtain a client-prepared listing of depreciation for assets associated with NMVTIS program for the year ended September 30, 2018.
2. Test reasonableness of depreciation expense by scanning the listing of depreciation for reasonableness and investigating any calculated depreciation expense that does not appear reasonable.

**Results and Findings:**

1. We obtained and inspected the depreciation expense associated with the NMVTIS program for the year ended September 30, 2018 in conjunction with our review of fixed assets at #2.
2. As discussed in C.3, we performed a recalculation of the depreciation expense for the year ended September 30, 2018 and found depreciation expense to be reasonable after the manual adjustment that was booked to correct the overstatement of depreciation expense, and that the calculation is in compliance with AAMVA policy.

**K. INDIRECT EXPENSES**

**Procedures:**

1. Obtain a client-prepared listing of indirect expenses allocated to the NMVTIS program for the year ended September 30, 2018.
2. Understand AAMVA's indirect cost allocation methodology, including whether the allocation of indirect expenses is consistent with the cost allocations to other programs.
3. Judgmentally select a sample from the list of expenses included in the indirect cost pool to test for accuracy.

**Results and Findings:**

1. We obtained the client-prepared listing of indirect expenses charged to the NMVTIS program for the year ended September 30, 2018. We traced the listing to the general ledger details generated from the accounting system without exception.
2. We inspected the methodology of the indirect expense allocation as it relates to the NMVTIS program and noted that it is consistent across AAMVA's other programs. AAMVA utilizes the allocator function of its accounting software to record indirect costs based on provisional rates directly to projects. At the end of each month, AAMVA records a true-up entry to record the actual indirect costs to projects. We recalculated the provisional indirect costs charged to NMVTIS and noted no exception.

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**SPECIFIED REVENUE AND EXPENSES (CONTINUED)**

**K. INDIRECT EXPENSES (CONTINUED)**

**Results and Findings (continued):**

3. We inspected the allocation of the overhead indirect cost pool to NMVTIS for the months of April and September 2018, totaling \$91,101 and \$110,932, respectively. The overhead indirect cost pool included expenses related to infrastructure, facilities administration, security and business continuity and contract administration, among others. From the overhead indirect cost pool for April and September 2018, we selected infrastructure expenses and traced the amounts to the accounting system without any exceptions.

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**EXHIBIT A**

**SCHEDULE OF SPECIFIED ASSETS, LIABILITIES AND NET ASSETS  
September 30, 2018**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,720,865
Property and equipment, net:	
Software	\$ 2,780,042
Less: Accumulated depreciation	(\$ 2,240,378)
<b>Total Property and Equipment, Net</b>	<b><u>\$ 539,664</u></b>

<b>LIABILITIES</b>	
Open credits	\$ 23,500
Open credits – consumer access	\$ 5,388,545
Unearned consumer access fees	\$ 22,500
<b>Total Liabilities</b>	<b><u>\$ 5,434,545</u></b>

<b>NET ASSETS</b>	
Temporarily restricted net assets, beginning of the year	\$ 1,757,354
Fiscal year 2017 program income	\$ 238,578
Released from restriction	(\$ 397,574)
<b>Temporarily restricted net assets, end of the year</b>	<b><u>\$ 1,598,358</u></b>

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**EXHIBIT B**

**SCHEDULE OF SPECIFIED REVENUE AND EXPENSES  
For the Year Ended September 30, 2018**

<b>REVENUE</b>	
State user fees	\$ 4,884,865
Consumer access fees	\$ 3,938,618
Less: Jurisdiction revenue sharing	( <u>\$ 1,962,444</u> )
Net Consumer Access Fees	\$ 1,976,174
Application set-up fees	\$ 91,000
Interest income	<u>\$ 12,981</u>
<b>TOTAL REVENUE</b>	<u><b>\$ 6,965,020</b></u>

<b>EXPENSES</b>	
Labor	\$ 2,384,672
Data center expenses	\$ 721,557
Technology support costs	\$ 510,932
Depreciation	\$ 428,692
State support	\$ 242,666
Consulting	\$ 158,923
Network infrastructure and computer expenses	\$ 90,437
Travel	\$ 12,458
Other expenses	<u>\$ 12,662</u>
Total Direct Expenses	\$ 4,562,999
Indirect costs	<u>\$ 3,190,157</u>
<b>TOTAL EXPENSES</b>	<u><b>\$ 7,753,156</b></u>

<b>EXCESS OF REVENUE/(EXPENSES)</b>	<u><b>(\$ 788,136)</b></u>
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