



**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, 2016*



**and  
Report Thereon**



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

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

We have performed the procedures enumerated 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, for the year ended September 30, 2016. 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 described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and findings are presented 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 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.

*Raffa P.C.*

**Raffa, P.C.**

Washington, DC

February 15, 2017, except as to  
Exhibits A and B, which is as of  
May 17, 2017 (date of completion of  
agreed upon procedures limited to  
the revision described in General,  
Results and Findings, 6)

# 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 April 15, 2016, 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 the 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 determine whether AAMVA has complied with laws, regulations and the provisions of contracts and grant agreements associated with its NMVTIS program.
4. Perform inquiry and analytical procedures to determine if NMVTIS revenues and expenses are separately identified and tracked within AAMVA's accounting system or records.
5. Perform inquiry and analytical procedures to determine 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, which were fairly allocated and reasonable.

##### Results and Findings:

1. We had discussions with the Chief Financial Officer (CFO) and the 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 reviewed AAMVA's financial policies and procedures related to cash receipts, cash disbursements, payroll and financial reporting process. We identified the key controls and performed walkthroughs of those internal controls to further our understanding of AAMVA's control environment. 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 find any issues 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 to the NMVTIS program. In addition, we reviewed contracts and grant agreements applicable to the NMVTIS program as part of these procedures and we are not aware of any noncompliance by AAMVA.
4. Based on our inquiry of management and review 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.

Continued

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**A. GENERAL (CONTINUED)**

**Results and Findings (continued):**

5. Based on our discussion of management and review 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), 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). Certain specified elements included in Exhibit A and Exhibit B were adjusted by management subsequent to the completion of procedures described in K, Indirect Expenses, to accrue additional expenses in AAMVA's indirect cost pool, a portion of which was allocated to the NMVTIS program. Other than to attach updated exhibits to this report, the accrual adjustment did not require additional procedures to be performed beyond what is described in K, Indirect Expenses, below.

**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, 2016.
2. Obtain a copy of the year-end bank reconciliation and bank statements. Review the bank reconciliation for any unusual or significant items.
3. Review 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 is one bank account maintained separately for the NMVTIS program.
2. We obtained and reviewed the bank statement for the month ended September 30, 2016 and noted that the balance reported on the bank statement agrees with the amount reported in AAMVA's general ledger. Therefore, there was no bank reconciliation needed as of September 30, 2016.
3. We reviewed the cash receipts and cash disbursements on the September 2016 and October 2016 bank statements, and we found no unusual or significant items.

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

##### Procedures:

1. Obtain a client-prepared listing of the work-in-process (if any) and fixed asset accounts associated with the NMVTIS program as of September 30, 2016.
2. Judgmentally select a sample of significant additions/disposals during the year to validate by vouching to supporting authorized cash disbursement documentation.
3. Review depreciation expense for reasonableness and compliance with AAMVA policy.

##### Results and Findings:

1. We obtained and reviewed the listing of the work-in-process and fixed asset accounts associated with the NMVTIS program as of September 30, 2016 and noted that the schedule agreed to the detailed general ledger.
2. There were no significant 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 reviewed the depreciation schedule for NMVTIS fixed assets and performed a recalculation of the depreciation expense for the year ended September 30, 2016. We noted that the depreciation expense is reasonable and computed in compliance with AAMVA policy. 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 the Open Credit – Consumer Access account associated with the NMVTIS program as of September 30, 2016.
2. Judgmentally select a sample of open credits and test the reasonableness of the credit amount by recreating and comparing the 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 reviewed a detailed listing of the Open Credit – Consumer Access account associated with the NMVTIS program as of September 30, 2016, which comprised the unapplied monthly member credits. The open credits have a vesting period of one year and could only be applied to the members' dues and fees upon approval from the Department of Justice (DOJ).
2. We recalculated the January 2016 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.

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

**Results and Findings (continued):**

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 listing of temporarily restricted net assets related to NMVTIS as of and for the year ended September 30, 2016.
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 reviewed the listing of temporarily restricted net assets associated with the NMVTIS program as of September 30, 2016 and noted that the schedule agreed to the detailed general ledger.
2. We tied opening balances to prior year ending balances and found no exception. The release from temporarily restricted net assets for the period ended September 30, 2016, which amounted to \$137,507 (see Exhibit A), includes \$96,790 of program expenses that were approved by the Department of Justice (DOJ), including monthly charges to support the NMVTIS Law Enforcement Access Tool, development of an informative segment shown on PBS and placement of print advertisements related to the NMVTIS program in law enforcement publications and websites. We reviewed the approval for these expenses without any exceptions.

In addition, the release from restriction also included an adjustment to reduce the temporarily restricted net asset balance by \$40,717. AAMVA maintains a separate cash account for NMVTIS and performed a reconciliation of the cash and the temporarily restricted net asset accounts and determined that \$40,717 of expenses or withdrawals from the cash account in previous years were not included as part of releases from restriction. This adjustment reflects the net impact of transactions in prior years that were recorded to the cash account, which management believes should have also been recorded as a release from temporarily restricted net assets, in order to properly state the temporarily restricted net assets as of September 30, 2016. However, since these expenses were incurred in previous years, we were unable to substantiate these expenses or withdrawals as part of our procedures.

3. We scanned the schedule of transactions and noted that there were no unusual transactions, other than the additional release from restriction of \$40,717 discussed in #2 above.

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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 listing associated with NMVTIS program income for the year ended September 30, 2016.
2. Review the schedule of transactions and judgmentally select a sample of these transactions to test the accuracy of the activity in the account.
3. Review 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, 2016, NMVTIS revenue before jurisdiction revenue sharing totaled \$6,037,404.
2. We reviewed the schedule of transactions and judgmentally selected a sample of these transactions to test the accuracy of the activity in the account.

- a. State user fees – Total state user fees is capped at \$3,369,350 as shown in Exhibit B. It is prorated to the different member states based on the number of registered vehicles per state. We reviewed the allocation of the \$3,369,350 among the states and found it to be reasonable. AAMVA used 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.

For each state, AAMVA divided the prorated state user fees by twelve (12) months to determine the monthly billing. We selected six monthly billings and one annual payment, 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 \$0.20 to \$1.25 per VIN search until February 29, 2016, and increased to \$0.24 to \$1.50 per VIN search beginning March 1, 2016. We selected seven sample billings from different months in fiscal year 2016, consisting of invoices sent to seven different companies, totaling \$95,164, 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. We obtained the listing of the leased line fees and judgmentally selected three transactions to examine. We traced the selections to supporting invoices and payments where applicable, and noted no exceptions.
3. Please refer to the procedures in items a-c above, which include our review of a sample of monthly billings.

**Continued**

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**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, 2016.
2. Obtain a project costing labor detail report for the year ended September 30, 2016 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, 2016. 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 verified 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, 2016.
2. Test reasonableness of the contra-revenue account by judgmentally sampling transactions to determine accuracy of the activity in the account.
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 reviewed the jurisdictional revenue sharing general ledger details for the NMVTIS program for the year ended September 30, 2016.



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

##### Results and Findings (continued):

2. We recalculated the jurisdiction revenue sharing for January 2016 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 2016 consumer access revenue by 50% to determine the estimated jurisdiction revenue sharing for the year ended September 30, 2016, 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 the NMVTIS program for the year ended September 30, 2016.
2. Review consulting invoices, data center expenses, indirect expenses, timesheets, etc. to verify the manner in which expenses are charged to the program.
3. Review 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, 2016. We traced the listing to the general ledger details generated from the accounting system and noted no exceptions.
2. We reviewed 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, network infrastructure and computer expenses and consulting services. There were no individual transactions above \$60,000; however, based on our review of expenses, data center expenses represent 47% of other direct costs. We traced four data center expenses totaling \$200,299 to approved invoices and payments, and we did not find any exceptions. We also tested the allocation of data center expenses between NMVTIS and other programs benefiting from the same services, and we noted that the allocation was reasonable. In addition, we judgmentally selected two additional transactions from the other expense categories, traced them to approved invoices and payments, and we did not find any exceptions.

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#### J. DEPRECIATION

##### Procedures:

1. Obtain a client-prepared listing of depreciation for assets associated with the NMVTIS program for the year ended September 30, 2016.
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 reviewed the depreciation expense associated with the NMVTIS program for the year ended September 30, 2016 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, 2016 and found depreciation expense to be reasonable 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, 2016.
2. Review the methodology to determine whether the allocation of indirect expenses is reasonable and consistent with the allocations to other programs.
3. Judgmentally select a list of sample expenses from the indirect cost pool to test and review for appropriateness.

##### Results and Findings:

1. We obtained the client-prepared listing of indirect expenses charged to the NMVTIS program for the year ended September 30, 2016. We traced the listing to the general ledger details generated from the accounting system without exception.
2. We reviewed 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.
3. From the indirect cost pool, we reviewed the allocation of the IT Service Center indirect cost pool for the months December 2015 and May 2016, totaling \$35,278 and \$37,584, respectively. We found the allocation methodology to be reasonable and appropriate as well as properly supported.

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**EXHIBIT A**

**SCHEDULE OF SPECIFIED ASSETS, LIABILITIES AND NET ASSETS  
September 30, 2016**

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**ASSETS**

Cash and cash equivalents	<u>\$ 1,861,624</u>
Property and equipment, net:	
Software	\$ 2,780,042
Less: Accumulated depreciation	<u>(1,383,062)</u>
Total property and equipment, net	<u>\$ 1,396,980</u>

**LIABILITIES**

Open credits – consumer access	<u>\$ 2,696,204</u>
Unearned consumer access fees	<u>90,000</u>

**NET ASSETS**

Temporarily restricted net assets, beginning of the year	1,992,117
Release from restriction	<u>(137,507)</u>
Temporarily restricted net assets, end of the year	<u><u>\$ 1,854,610</u></u>

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**EXHIBIT B**

**SCHEDULE OF SPECIFIED REVENUE AND EXPENSES**

**For the Year Ended September 30, 2016**

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REVENUE	
State user fees	\$ 3,369,350
Consumer access fees	2,417,779
Less: Jurisdiction revenue sharing	(1,210,283)
Net consumer access fees	<u>1,207,496</u>
Application set-up fees	155,000
Leased line fees	83,727
Interest income	9,192
Other fees	<u>2,356</u>
TOTAL REVENUE	<u>4,827,121</u>
EXPENSES	
Labor and benefits	2,139,663
Data center expenses	701,125
Depreciation	428,624
Consulting	195,806
Network infrastructure and computer expenses	126,166
Travel	11,107
Other expenses	<u>34,478</u>
Total direct expenses	3,636,969
Indirect costs	<u>3,478,233</u>
TOTAL EXPENSES	<u>7,115,202</u>
EXCESS OF REVENUE/(EXPENSES)	<u><u>\$ (2,288,081)</u></u>