

**Contract Agency Vehicle Registration and Titling
Services Are Cost Efficient, but
Contracts Need Performance Terms**



**Final Report to the Joint Legislative
Program Evaluation Oversight Committee**

Report Number 2012-07

April 25, 2012



NORTH CAROLINA GENERAL ASSEMBLY
Legislative Services Office

George R. Hall, Legislative Services Officer

Program Evaluation Division
300 N. Salisbury Street, Suite 100
Raleigh, NC 27603-5925
Tel. 919-301-1404 Fax 919-301-1406

John W. Turcotte
Director

April 25, 2012

Senator Fletcher L. Hartsell, Jr., Co-Chair, Joint Legislative Program Evaluation Oversight Committee
Representative Julia Howard, Chair, Joint Legislative Program Evaluation Oversight Committee

North Carolina General Assembly
Legislative Building
16 West Jones Street
Raleigh, NC 27601

Honorable Co-Chairs:

Session Law 2011-382 directed the Program Evaluation Division to determine the cost-effectiveness of using license plate agency contractors to provide vehicle registration and titling services and to evaluate the oversight of these contractors by the Division of Motor Vehicles. Session Law 2011-382 also prohibited the Commissioner of Motor Vehicles from cancelling any contracts until this study's recommendations are acted upon by the Joint Legislative Program Evaluation Oversight Committee.

I am pleased to report that the Department of Transportation's Division of Motor Vehicles and the license plate agency contractors cooperated with us fully during the evaluation.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Turcotte".

John W. Turcotte
Director



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

April 2012

Report No. 2012-07

Contract Agent Vehicle Registration and Titling Services Are Cost Efficient, but Contracts Need Performance Terms

Summary

The General Assembly directed the Program Evaluation Division to determine the cost-effectiveness of using license plate agency (LPA) contractors to provide vehicle registration and titling services and to evaluate the oversight of these contractors by the Division of Motor Vehicles (DMV). Session Law 2011-382 also prohibited the Commissioner of Motor Vehicles from cancelling any contracts until this study's recommendations are acted upon by the Joint Legislative Program Evaluation Oversight Committee.

Contractors are a cost-efficient way for the State to provide vehicle registration and titling services. As of January 2012, there were 118 LPA contractors (101 private businesses and 17 local public entities) and two state DMV offices providing registration and titling services. Customer fees for registration and titling services go to the State, and the State in turn compensates LPA contractors on a per-transaction basis. The Program Evaluation Division determined the State pays less for each transaction performed by private contractors (\$2.12) and local public entity contractors (\$2.07) than for transactions performed by state offices (\$6.13).

Lack of coordination and poor communication hinders DMV's oversight of contractors. The Program Evaluation Division found DMV relied on processes that react to problems rather than working with LPAs to improve overall performance. Interviews and surveys also revealed a lack of coordination among oversight mechanisms, creating a disjointed oversight structure.

Lack of a standardized, performance-based contract for all contractors limits accountability and oversight. As a result of changes in the LPA program, two-thirds of LPAs operate under indefinite contracts, differing from the other third of LPAs that operate under term-limited contracts. The major differences between the two contracts are that indefinite contracts do not have a duration term and do not require LPAs to pay the State to lease computer equipment, have a public restroom, or report notary fee collection. Neither type of contract has performance measures, such as customer satisfaction, customer complaints, and transaction error rates.

To address these findings, the General Assembly should direct DMV to

- implement a standardized, performance-based contract for LPAs;
- improve oversight and communications in the LPA program; and
- outsource registration and titling services provided at the two state offices.

Purpose and Scope

The General Assembly directed the Program Evaluation Division to evaluate the cost-effectiveness of the current operations of the Division of Motor Vehicles (DMV) Commission Contract for the Issuance of Plates and Certificates Program and to determine any savings and efficiencies that could be achieved by changing operations.¹ For the remainder of the report, the Commission Contract for the Issuance of Plates and Certificates Program will be referred to as the license plate agency (LPA) program.

This evaluation addressed three central research questions:

1. What are the structure, operations, and cost of the LPA program?
2. How well does the LPA program meet the motor vehicle registration and titling needs of North Carolina's citizens?
3. Are there more efficient ways to register and title motor vehicles in North Carolina?

The Program Evaluation Division collected data from several sources, including

- interviews with and surveys of DMV staff;
- transactions and errors from the State Titling and Registration System;
- a survey of all LPAs and site visits to 26 agencies;
- interviews with representatives of the North Carolina Association of Motor Vehicle Registration Contractors, Inc.; and
- research on other states.

Background

North Carolinians have been registering motor vehicles since 1909 and titling vehicles since 1923. Over time, the General Assembly has transferred responsibility for vehicle registration and titling from the Secretary of State to the Department of Revenue to the Division of Motor Vehicles (DMV). Beginning in 1961, the General Assembly mandated that all registration plates, registration certificates, and certificates of title—outside of those issued by DMV's Charlotte and Raleigh offices—be issued “insofar as practicable and possible” through contracts with persons, firms, corporations, or governmental subdivisions of the State, and that DMV provide “proper supervision” to the contract agents.²

Other states also use contractors to perform registration and titling services. As shown in Exhibit 1, 18 states used contractors for registration and titling services in 2011. In North Carolina, contractors are not the only entities that provide registration and titling services (see Exhibit 2), but they provide the majority of services. Collectively, license plate agency (LPA) contractors performed 68% of the 14.1 million registration and titling transactions in Calendar Year 2011; private contractors by themselves performed 64% of all transactions that year.

¹ N.C. Sess. Laws, 2011-382.

² N.C. Gen. Stat. § 20-36(h).

Exhibit 1**Private Contractors
Perform Registration and
Titling Services in 18
States**

Source: Program Evaluation Division based on data from the American Association of Motor Vehicle Administrators and phone interviews with other states.

Exhibit 2: LPA Contractors Perform the Majority of Registration and Titling Services

Entity	Description	Calendar Year 2011	
		Locations	Transactions (percentage of all transactions)
License Plate Agency Contractors			
Private	Customers can receive registration and titling services face to face at offices across the state	109	8,982,541 (64%)
Local public entity	Customers can receive registration and titling services face to face at offices across the state	17	575,223 (4%)
Other Entities Performing Registration and Titling Services			
DMV state offices		2	
Registration and titling services	Customers can receive registration and titling services face to face in Charlotte and Raleigh		342,595 (2%)
Specialized services	Customers can receive specialized services (e.g., instant title, error correction correspondence letters, issuance of certain specialty plates) face to face in Charlotte and Raleigh		88,651 (<1%)
For-hire/International Registration Plan services	Customers can receive registration for commercial vehicles face to face in Charlotte and Raleigh		106,746 (<1%)
DMV headquarters	Customers can receive a variety of services, some of which are available at license plate agencies and some of which are not		948,044 (7%)
DMV online	Customers can renew their registration online		1,650,098 (12%)
DMV mail-in	Customers can renew their registration by mailing in a registration renewal card		878,540 (6%)
Online dealers	After customers purchase a vehicle, online dealers can submit registration and title work through one of two online vendors	445	612,622 (4%)
Total Transactions			14,185,060

Note: Data in this table do not match data in Exhibit 5 because they include for-hire/International Registration Plan transactions for the 33 contractors that provided those services in Calendar Year 2011. DMV headquarters houses administrative and service delivery functions including the Administrative Office; Call Center; Special Title Unit; Quality Assurance; Special License Unit; Renewals, Titles, and Plates Unit; Liability Insurance Unit; Dealer Plate Branch; and temporary LPAs (such as mobile units).

Source: Program Evaluation Division based on data from the Division of Motor Vehicles.

DMV determines the need to establish LPAs within certain geographical areas based on the number of existing LPAs in a given county, the number of transactions processed per LPA, county vehicle population, county citizen population, complaints due to service or lack thereof, and ability to sustain the business model. As of January 2012, there were 118 LPA contractors spread across North Carolina:

- 101 were operated by private contractors;³ and
- 17 were operated by local public entity contractors (i.e., chambers of commerce, counties, or towns).

In addition, customers can receive registration and titling services from two state DMV offices in Charlotte and Raleigh.

The fees customers pay at LPAs for registration and titling services go to the Highway Trust Fund, Highway Fund, or local school boards. DMV in turn pays LPA contractors for performing those services (see Exhibit 3). As established by statute, DMV pays contractors on a per-transaction basis:

- \$1.43 for any combination of the transactions listed in N.C. Gen. Stat. § 20-63(h);⁴
- an additional \$1.00 for certain titling transactions (see Exhibit 3);⁵ and
- an additional \$1.27 for collection of the highway use tax.⁶

Thus, the least LPA contractors can receive for performing services is \$1.43; the most they can receive is \$3.70. For example, an LPA contractor would receive \$1.43 for performing a transfer of registration. An LPA contractor would receive \$3.70 for certain titling services and collection of the highway use tax.

The majority of LPAs are private contractors who need to generate a profit to maintain their businesses. An important source of additional revenue is from notary fees: most transactions must be notarized and LPAs collect fees directly from customers. Notary fees are set by DMV in the LPA program's Standard Operating Procedures Manual; LPA contractors receive \$5 for one signature, \$6 for two signatures, and \$7 for three or more signatures.⁷

³ After the Program Evaluation Division completed its analysis for this study, DMV closed one of these private contractor agencies due to inappropriate activities.

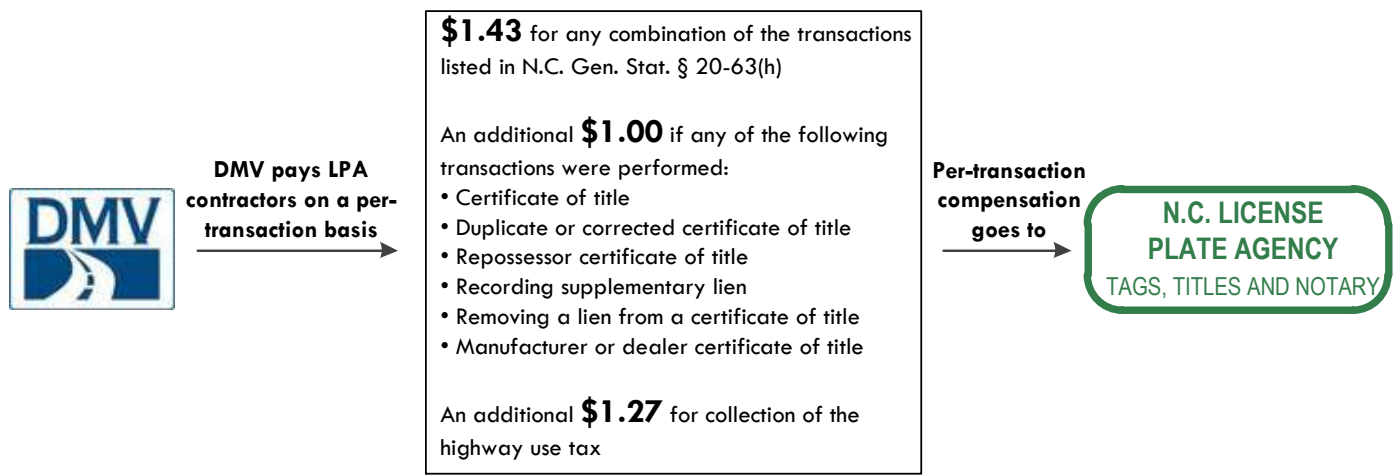
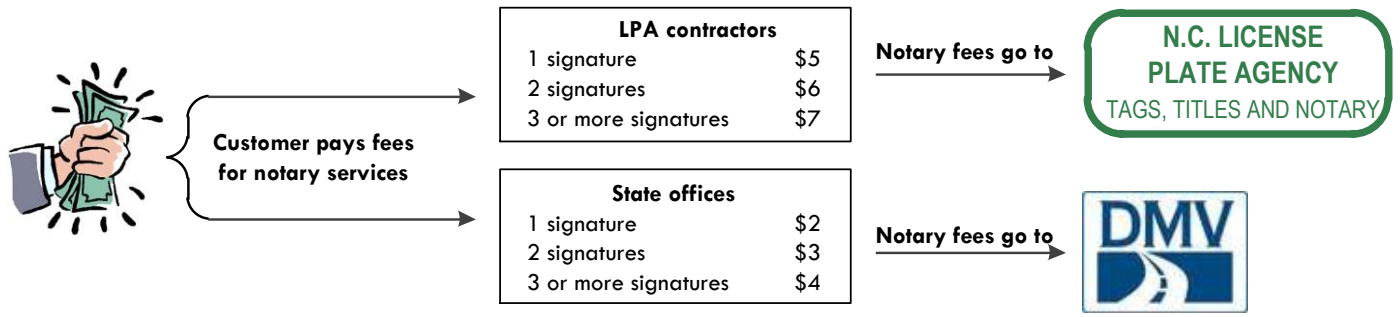
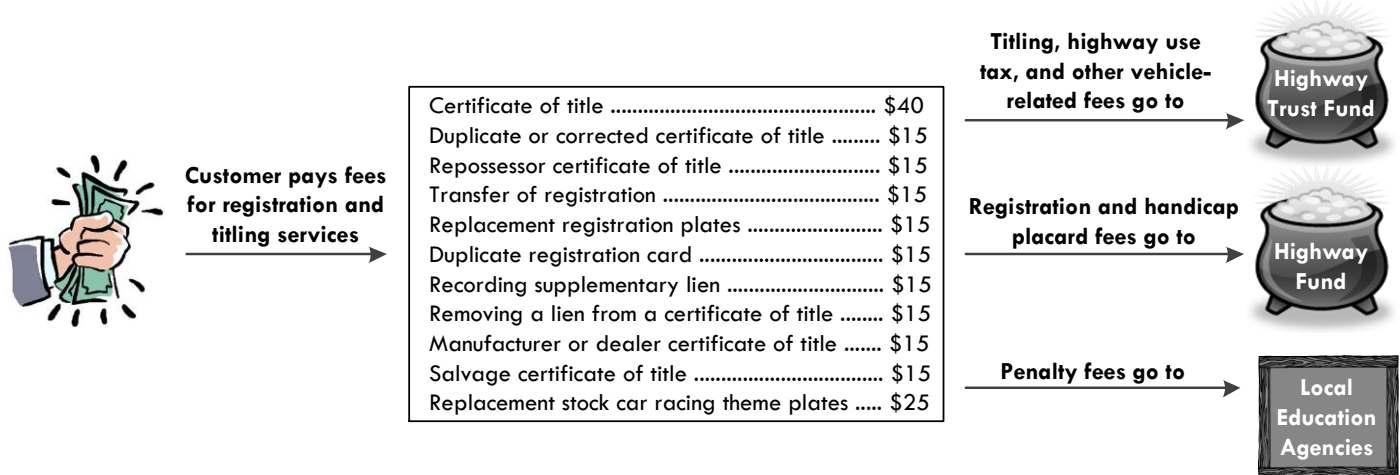
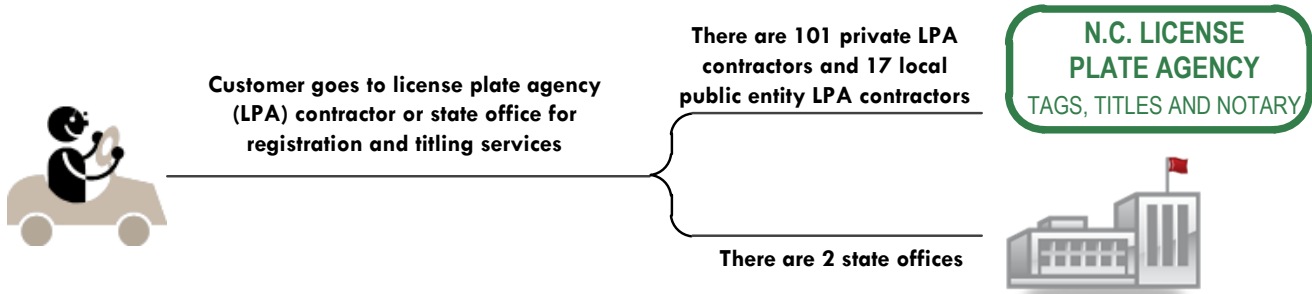
⁴ The transactions listed in N.C. Gen. Stat. § 20-63(h) are issuance of a registration plate, registration card, registration renewal sticker, or certificate of title; issuance of a handicapped placard or handicapped identification card; acceptance of an application for a personalized registration plate; acceptance of a surrendered registration plate, registration card, or registration renewal sticker; cancellation of a title because the vehicle has been junked; acceptance of an application for, or issuance of, a refund for a fee or a tax; receipt of a civil penalty for a lapse in financial responsibility or receipt of the restoration fee; acceptance of a notice of failure to maintain financial responsibility for a motor vehicle; collection of civil penalties imposed for emissions violations; sale of inspection stickers to a licensed inspection station; collection of the highway use tax; and acceptance of a temporary lien filing. The compensation rate for these transactions was last raised in 2001.

⁵ Session Law 2004-77 established this provision to provide an additional fee for transactions related to titling services.

⁶ Collection of the highway use tax is not a stand-alone service; it occurs in combination with the issuance of a title. The compensation rate for collection of the highway use tax was last raised in 2001. Starting in 2013, LPAs will collect vehicle property taxes. Session Law 2005-294 made vehicle property taxes due at the same time registration fees are due and authorized LPAs to collect these taxes on behalf of counties. The amount counties will pay LPAs per transaction has not been determined.

⁷ Based on N.C. Gen. Stat. § 20-42(a), state offices receive \$2 for one signature, \$3 for two signatures, and \$4 for three or more signatures.

Exhibit 3: Registration and Titling Fees and LPA Compensation

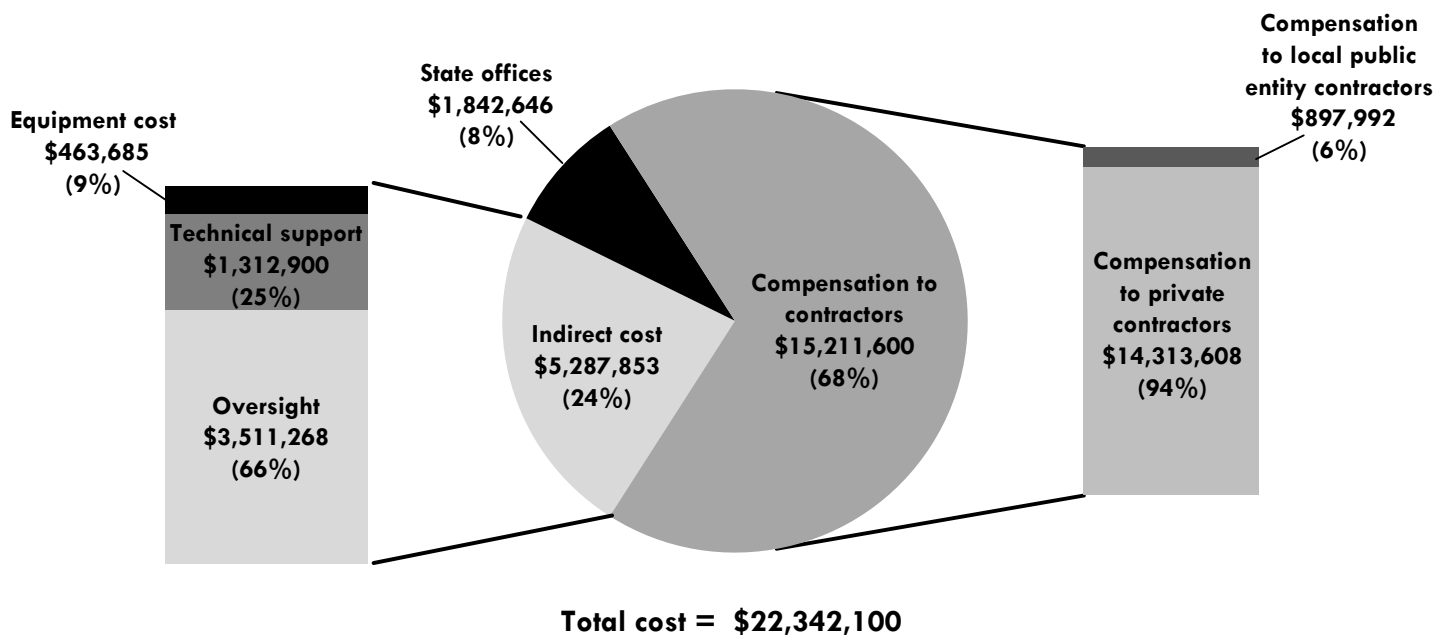


Source: Program Evaluation Division based on N.C. Gen. Stat. §§ 20-42, 20-63, and 20-85 and the LPA Standard Operating Procedures Manual.

To generate additional revenue, some private contractors offer bill-pay services (e.g., Western Union) or sell merchandise (e.g., license plate covers and vanity plates). DMV allows LPAs that process fewer than 25,000 transactions a year to operate in conjunction with another business if the other business does not constitute a conflict of interest or does not have an adverse effect on the operation of the LPA.⁸

In Calendar Year 2011, the total state cost for the LPA program was \$22.3 million (see Exhibit 4). The State paid LPAs that were operated by private contractors and local public entities a total of \$15.2 million and spent \$1.8 million on operations at the two state offices. DMV's oversight of the entire program, its technical support for LPAs, and the computer equipment it provided for LPAs on indefinite contracts cost \$5.3 million.

Exhibit 4: State Costs for the LPA Program in Calendar Year 2011



Source: Program Evaluation Division based on data from the Division of Motor Vehicles.

All LPA contractors have contracts with DMV that define terms of service. However, there are two different types of contracts: two-thirds of LPAs have contracts with automatic renewal year to year with no express date for termination, and one third have three-year contracts with two one-year automatic extensions. When the LPA program started in 1961, LPA contracts were "perpetual" and had no duration term. DMV incorporated duration terms into new LPA contracts starting in 2007, and in 2010 DMV sought the legal advice of the Attorney General to determine if it could cancel the perpetual contracts "at will."⁹ Staff at the Attorney General's office determined the LPA contracts were not "perpetual" but rather "indefinite," and therefore DMV could cancel them within a reasonable time and upon reasonable notice. However, the General Assembly prohibited the Commissioner of Motor Vehicles from cancelling or amending any LPA contracts for any reason other than malfeasance,

⁸ Agencies that opened prior to June 1, 2008, can operate in conjunction with another business if they process fewer than 50,000 transactions a year.

⁹ DMV requested an official opinion from the Attorney General in February 2012, and the opinion had not been issued by the time this report was released.

misfeasance, or nonfeasance until the Program Evaluation Division's recommendations for this study are acted upon by the Joint Legislative Program Evaluation Oversight Committee.¹⁰

Findings

Finding 1. Contracting with license plate agencies is a cost-efficient way for the State to provide vehicle registration and titling services.

To determine if contracting is a cost-efficient way to deliver registration and titling services, the Program Evaluation Division compared the cost to the State per transaction for private contractors, local public entity contractors, and the two state offices.¹¹ As shown in Exhibit 5, the State paid on average less for each transaction performed by private contractors and local public entity contractors than for each transaction performed by state offices in Calendar Year 2011.¹²

Exhibit 5: Private Contractors Had the Lowest Costs per Transaction in Calendar Year 2011

Entity	Total State Compensation for Contractors / Total Operating Cost for State Offices	Total State Computer Equipment Cost	Total State Oversight and Technical Support Cost	Total State Cost	Total Transactions	Average State Cost per Transaction
Private contractors (n = 109)	\$ 14,313,608	\$ 363,019	\$ 4,376,721	\$ 19,053,349	8,976,123	\$ 2.12
Local public entity contractors (n = 17)	\$ 897,992	\$ 10,584	\$ 280,399	\$ 1,188,975	575,064	\$ 2.07
State offices (n = 2)	\$ 1,842,646	\$ 90,083	\$ 167,048	\$ 2,099,777	342,595	\$ 6.13

Note: Data in this table do not match the contractor data in Exhibit 2 because they exclude for-hire/International Registration Plan transactions. Eight of the private contractors that were in operation in Calendar Year 2011 were no longer in operation as of January 2012. Total State Computer Equipment Cost for contractors was calculated by distributing the State's cost for supplying computer equipment to LPAs on indefinite contracts in proportion to the number of terminals they have. Total State Oversight and Technical Support Cost was calculated by distributing the State's costs for LPA program oversight and technical support among the three entities in proportion to the number of transactions they performed.

Source: Program Evaluation Division based on data from the Division of Motor Vehicles.

The operating costs per transaction at the state offices was \$6.13 in Calendar Year 2011 (see Exhibit 5). The Program Evaluation Division surveyed LPA contractors to collect their 2011 operating costs; the survey

¹⁰ Malfeasance is the doing of a wrongful or unlawful act, misfeasance is the doing of a proper act in a wrongful or injurious manner, and nonfeasance is the failure to perform a required duty or obligation.

¹¹ The Program Evaluation Division excluded from this analysis the 88,651 specialized services (e.g., instant title, error correction correspondence letters, and issuance of certain specialty plates) that were performed exclusively at the two state offices in Calendar Year 2011. In addition, for-hire/International Registration Plan transactions were excluded from this analysis because the two state offices provided 85% of these services, whereas the remaining 15% were provided by the 33 contractors who offered these services in Calendar Year 2011. Because these services may have been bundled with other services for which contractors receive a flat rate of compensation, the Program Evaluation Division could not exclude the compensation contractors may have received for for-hire/International Registration Plan transactions.

¹² In 2001, the North Carolina Department of Transportation's Productivity Services Section determined it takes LPAs 2.33 minutes to complete registration transactions, 4.81 minutes to complete titling transactions, and 2.61 minutes to complete customer service transactions. The Program Evaluation Division found private contractors, local public entity contractors, and state offices performed similar proportions of each type of transaction, ranging from 68% to 78% for registration transactions, 15% to 23% for titling transactions, and 6% to 9% for customer service transactions in Calendar Year 2011.

yielded a response rate of 82%.¹³ Based on survey responses, private contractors had an average operating cost per transaction of \$1.41.¹⁴ Subtracting the average operating costs per transaction from the average compensation from the State per transaction (\$1.59) revealed that private contractors made, on average, 18 cents profit on each transaction in Calendar Year 2011 (this amount does not include revenue from notary fees associated with those transactions). Local public entity contractors had an average operating cost per transaction of \$2.37.¹⁵

Staff size and salaries drive the operating costs of the state offices.

Personnel costs typically make up the majority of a business's operating costs. The Program Evaluation Division's survey asked LPAs to report the number of full- and part-time positions they had in Calendar Year 2011.¹⁶ As shown in Exhibit 6, private contractors averaged 0.44 staff per 10,000 transactions, local public entity contractors averaged 0.63 staff per 10,000 transactions, and the two state offices averaged 1.17 staff per 10,000 transactions.¹⁷ Therefore, state offices had more than twice as many staff performing the same number of transactions as private contractors.

In addition to having more employees, state offices only employ full-time positions (with benefits), whereas private contractors are able to employ part-time staff. In Calendar Year 2011, 94% of the operating costs of state offices were personnel costs (including salaries and benefits). Higher salaries might be justified if those employees provided a higher level of service. To test this possibility, the Program Evaluation Division intended to compare the transaction error rate across the three groups to determine if employees at state offices made fewer errors than employees who worked for private contractors or local public entity contractors. However, because there are only two state offices and because 100% of the transactions at the Charlotte office received a quality check in Calendar Year 2011, as opposed to 20% to 25% of transactions at the Raleigh office and at LPA contractors, the error rates for the three groups could not be compared for statistical differences.

¹³ The Program Evaluation Division had to rely on contractors to report their own operating costs because as private businesses their financial records are not public. The operating costs provided by contractors were reduced by the percentage of time they reported having spent on for-hire/International Registration Plan services. The adjusted operating costs for contractors ranged from \$5,000 for an agency that performed 16,500 transactions to \$393,000 for an agency that performed 197,280 transactions in Calendar Year 2011.

¹⁴ The 83 private contractors who responded to the survey reported \$10,433,079 in total operating costs and completed 7,422,926 total transactions. When the Program Evaluation Division looked only at the eight contractors that performed a similar number of annual transactions as the state offices (i.e., over 150,000), their average operating cost per transaction was \$1.53.

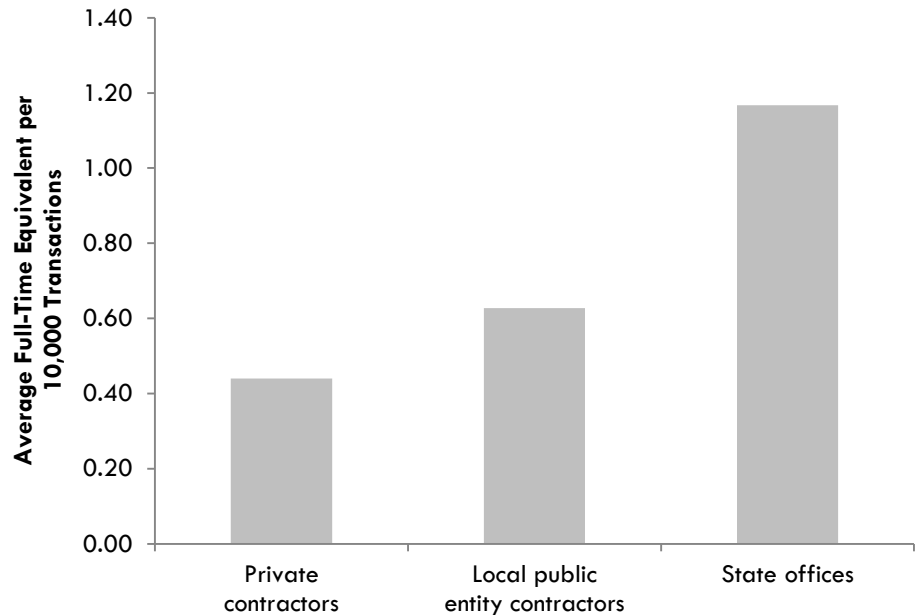
¹⁵ The 11 local public entity contractors that responded to the survey reported \$939,716 in total operating costs and completed 397,143 total transactions.

¹⁶ The Program Evaluation Division assumed two part-time positions equaled one full-time position.

¹⁷ The positions provided by contractors were reduced by the percentage of time they reported having spent on for-hire/International Registration Plan services.

Exhibit 6

State Offices Had More Than Twice as Many Staff per 10,000 Transactions as Private Contractors in Calendar Year 2011



Source: Program Evaluation Division based on data from a survey of LPAs and from the Division of Motor Vehicles.

Thus, contractors offer a cost-efficient way for the State to deliver registration and titling services. They cost the State less on a per-transaction basis, and they had lower operating costs than state offices. The higher costs of state offices result from their staff size and compensation. In an interview with the Program Evaluation Division, the Commissioner of Motor Vehicles agreed that state government could not afford to replace private contractors with government offices.

In light of the considerable difference in cost per transaction between contractors and state offices, this finding raises the question of whether state offices should continue providing registration and titling services. The Program Evaluation Division estimates the State could save up to \$1.3 million annually if the registration and titling services currently provided at state offices were transferred to LPA contractors (see Exhibit 7). This figure is based on the difference between the total operating costs of the state offices in Calendar Year 2011 and the cost to the State had the state office transactions been performed by private contractors. This difference was reduced by the amount the two state offices collected in notary fees in Calendar Year 2011 because those fees would no longer be available to the State.

Exhibit 7**Potential Cost Savings
from Outsourcing Vehicle
Registration and Titling
Services Performed at
State Offices**

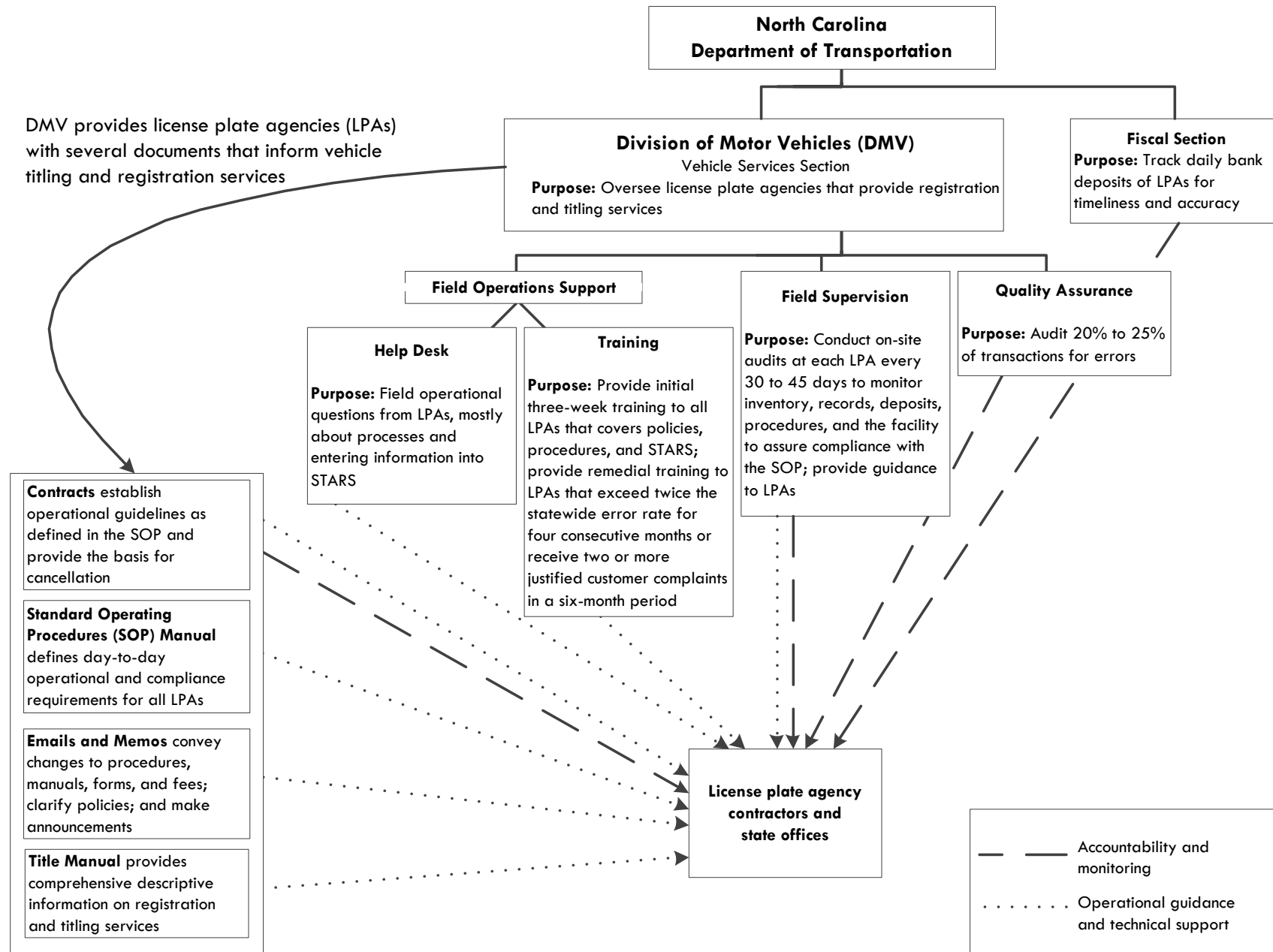
Source	Costs
State office operating and equipment costs	\$ 1,932,729
Compensation to potential contractors (\$1.59 per transaction for 342,595 transactions)	\$ (544,726)
<i>Difference (potential savings from outsourcing)</i>	<i>\$ 1,388,003</i>
Adjustment for loss of notary fee revenue to the State	\$ (119,186)
Total Net Cost Savings	\$ 1,268,817

Source: Program Evaluation Division based on data from the Division of Motor Vehicles.

Finding 2. Although the of Division of Motor Vehicles has mechanisms in place to provide guidance and accountability, lack of coordination and poor communication hinder oversight of license plate agencies.

As shown in Exhibit 8, a range of Division of Motor Vehicles (DMV) mechanisms provide license plate agency (LPA) operational guidance, accountability, or both (see the Appendix for a complete description). Together, these mechanisms are intended to assure LPAs adhere to operational requirements, deliver services accurately and effectively, and do not commit fraud. They provide answers to the question, "How well are LPAs performing?" Clearly, they are critical to assuring compliance and good service: oversight and accountability practices have resulted in nine LPA closures since 2009 for contract violations (i.e., criminal misconduct and fraud). However, the question, "How well is DMV performing?" in providing oversight and guidance is not asked. Evaluation data indicated DMV administrators do not focus on improving the LPA program and rely on processes that react to problems rather than working with LPAs to improve overall performance. Interviews and surveys also revealed a lack of coordination among oversight mechanisms, creating a disjointed oversight structure.

Exhibit 8: Accountability and Guidance Mechanisms Provide LPA Oversight



Note: STARS stands for the State Titling and Registration System.

Source: Program Evaluation Division based on data from the Division of Motor Vehicles.

DMV administrators do not think of the LPA program as a program per se. The fundamental problem is that current DMV accountability mechanisms focus on the parts (contractor compliance and performance) and not on the whole (DMV's performance in supporting and improving the program). Several problems identified in this evaluation stem from this lack of overall programmatic focus. Although DMV has established clear requirements for LPAs, it takes a punitive approach to dealing with each transgression (e.g., charging LPAs for missing or damaged inventory, listing LPAs with high transaction errors on a published report) and not a quality improvement approach for the whole program (e.g., coordinating oversight mechanisms, improving communications for improved LPA performance, tracking outputs and outcomes to reflect on overall program performance).

Without a focus on program improvement, the Program Evaluation Division was not surprised to find there are no overall LPA program performance measures or a program model to guide improvements to the overall program. As suggested in previous Program Evaluation Division reports, logic models are tools that link program goals, activities, outputs, and outcomes in a way that helps define and describe how programs work and how they should be held accountable.¹⁸ The LPA program's effectiveness could be improved by adopting this approach.

A logic model lays the foundation for program planning and improvement through performance measurement. The Program Evaluation Division created a logic model to demonstrate how this approach could be applied to the LPA program, shown in Exhibit 9. Program administrators provided the goal statement, which appears in the top tier of the model. The middle tier describes operations at the overall LPA program level, and the bottom tier describes operations at the individual LPA level. DMV practices are generally well defined for the bottom tier of the model. The middle tier, however, is based on the Program Evaluation Division's concept of how the overall program might be described, which outputs might capture activities, and which outcomes could be used to measure program performance and improvement. The following descriptions correspond to each column in the middle tier of the logic model.

- **Inputs** consist of resources available to operate the LPA program, including funding, staffing from other DMV sections that support the program (such as Quality Assurance and Field Operations Support), and infrastructure (such as the State Titling and Registration System).
- **Activities** describe what the program currently does to achieve the overarching goal, including issuing and monitoring contracts, providing LPA employee training, keeping manuals up to date, communicating effectively with LPAs about policy changes and best practices, operating the Help Desk, monitoring transaction quality, conducting site audits, and monitoring customer satisfaction.

¹⁸ Program Evaluation Division. (2011, October). *Programs for children, youth, and families need a guiding framework for accountability and funding*. Report to the Joint Legislative Program Evaluation Oversight Committee. Raleigh, NC: General Assembly. Program Evaluation Division. (2010, April). *High school graduation project requirement should remain a local school district decision*. Report to the Joint Legislative Program Evaluation Oversight Committee. Raleigh, NC: General Assembly.

Exhibit 9: Program Logic Model for the Overall LPA Program and Individual LPA Operations

LPA Program Goal

To deliver quality registration and titling services; furnish timely, accurate information; provide excellent customer service; and maintain the integrity of official vehicle registration records

Overall Program Performance: DMV Oversight

Inputs <i>Resources to operate program</i>	Activities <i>How goals are achieved</i>	Outputs <i>Direct products of activities</i>	Outcomes <i>Direct program benefits</i>
<ol style="list-style-type: none"> 1. General Fund 2. Central DMV staff 3. State Titling and Registration System infrastructure 	<ol style="list-style-type: none"> 1. Issue, monitor LPA contracts 2. Provide training 3. Update Standard Operating Procedures Manual, Title Manual 4. Communicate with LPAs 5. Operate Help Desk 6. Monitor transaction quality (errors) 7. Conduct site audits 8. Monitor customer satisfaction (complaints, surveys) 	<ol style="list-style-type: none"> 1. Number of initial and remedial training sessions provided, number of participants 2. Log of updates and communications with LPAs 3. Number of transactions monitored 4. Transaction error rate 5. Number and frequency of audits conducted 6. Number of customer complaints 	<ol style="list-style-type: none"> 1. Tests of employee knowledge pre- and post-training demonstrate training effectiveness 2. Error rates among employees who attended remedial training demonstrate training effectiveness 3. LPA surveys report improved communications between LPAs and DMV 4. Trend in error rate improves over time across LPAs 5. Customer satisfaction survey results improve over time 6. Trend in customer complaints per transaction improves across LPAs

Individual LPA Performance: LPA Operations

Inputs <i>Resources to operate LPAs</i>	Activities <i>How goals are achieved</i>	Outputs <i>Direct products of LPA activities</i>	Outcomes <i>Direct benefits from LPA activities</i>
<ol style="list-style-type: none"> 1. State compensation 2. Notary fee revenue 3. Revenue from other sources 	<ol style="list-style-type: none"> 1. Follow contract terms 2. Attend training 3. Provide registration and titling services 4. Provide timely, courteous service 	<ol style="list-style-type: none"> 1. Number of employee training sessions attended 2. Number of transactions per LPA 3. Transaction error rate per LPA 4. Number of site audit findings, count of damaged/missing inventory per LPA 5. Number of customer complaints per LPA 	<ol style="list-style-type: none"> 1. LPA employee training is current 2. LPA error rate does not exceed threshold 3. LPA site audit finding frequency is below threshold 4. Customer satisfaction survey results per LPA improve over time 5. Trend of customer complaints per transaction at each LPA improves over time

Source: Program Evaluation Division based on data from the Division of Motor Vehicles.

- **Outputs** are measures, usually counts, which the LPA program could use to track and report on activities, such as the number of training sessions provided, a log of updates to the Standing Operating Procedures Manual and Title Manual, the number of communications with LPAs, the number of transactions monitored, the error rate, the number of audits conducted, and the number of customer complaints received.
- **Outcomes** track program benefits that can be expected as a result of activities, such as training effectiveness, improved communications between LPAs and DMV, trends in transaction error rates, customer satisfaction, and the number of complaints over time.

As shown in Exhibit 9, the model links inputs, activities, outputs, and outcomes and lays the groundwork for continuous quality improvement. Some activities, outputs, and outcomes are repeated for the overall program and LPA operations, but at this level they are used to reflect performance of the program as a whole. For example, customer satisfaction surveys have been conducted periodically in the past and could be scheduled at set intervals (for example, every two years). Surveys should be tailored to assess the LPA program (rather than all DMV services) using a representative sample so results can be generalized to the program as a whole and can also be used to reflect on individual LPA performance.

Data collected for this evaluation indicated DMV oversight mechanisms (shown in Exhibit 8 and described in the Appendix) are not well coordinated. On the one hand, a majority of respondents to a Program Evaluation Division survey of LPAs and state offices (hereafter referred to as the LPA survey) agreed the following oversight components were adequate to meet their needs: LPA staff training (63%); assistance from field supervisors (87%); and assistance from the Help Desk (75%).¹⁹ On the other hand, interviews with and surveys of DMV staff and LPAs indicated the effectiveness of oversight components is hampered by a lack of coordination among them. In response to a Program Evaluation Division survey of field supervisors, one commented that each DMV oversight section has its own direction and agenda, and the lack of coordination among them rendered the organization inefficient.

The following examples demonstrate the lack of coordination.

- Although the Quality Assurance Section and field supervisors share information, formal collaborations among the DMV oversight sections that could promote overall program improvement are not in place.
- The Quality Assurance Section tracks errors for each LPA and sends them to field supervisors for follow-up, but the section does not compile a master list of the most common errors to share with training staff and field supervisors. This process could help LPAs improve performance by raising awareness.

¹⁹ The survey response rate was 82%.

- Calls and problems reported to the Help Desk are not formally tracked, so there is no opportunity to draw “lessons learned”; a “Helpful Hints” section in the Title Manual reflects questions to the Help Desk, but a freestanding, formal mechanism would focus the program on quality improvement.²⁰

This evaluation found evidence of friction and communication problems between DMV and LPAs. Results from the Program Evaluation Division LPA survey indicated friction between DMV and LPAs. When rating whether they believed their interests were supported by DMV, only 15% of survey respondents believed the Commissioner supported them and 26% believed the DMV Vehicle Services Section had their interests in mind (the remainder either disagreed with the statements or were neutral). One field supervisor suggested LPAs might believe DMV does not support them because agency administrators are focusing more on enforcing program policies. In a memo provided to the Program Evaluation Division, the North Carolina Association of Motor Vehicle Registration Contractors, Inc. (the Association) made a much stronger statement and began with an unequivocal assertion about the hostility of current DMV management toward LPAs.²¹

When asked about communications between DMV and LPAs, LPA responses were mixed. Fewer than half (44%) of survey respondents agreed that DMV communications were clear and consistent, but more than half (56%) agreed that DMV responded to inquiries in a timely manner. Here, too, the Association’s memo went beyond evaluation findings, when it claimed LPAs were confused about which DMV communications took precedence over others and stated DMV did not provide timely or uniform responses to LPA questions.

One strategy to reduce tension and improve communications would be to establish an LPA working group to provide input to DMV about streamlining communications and increasing coordination among oversight mechanisms. At present, LPAs do not have a voice at DMV, and a forum where they could provide constructive input to improve the LPA program has the potential to improve relationships and oversight.

Information from surveys and interviews suggested communications could be improved by providing a secure website for LPAs to access training materials, manuals, DMV forms, and other guidance documents necessary for performing registration and titling services. It would also make it easier for DMV to keep communications up to date and could provide an online chat function to facilitate communication with the Help Desk and field supervisors.

²⁰ The present gap in using common Help Desk questions to improve overall program quality may be addressed in 2012. Field operations support administrators are developing an electronic call log for the Help Desk to track calls by question content and by LPA. This electronic log is an important step toward program quality improvement both to educate LPAs and to improve consistency in the answers given by Help Desk staff.

²¹ Seventy-seven percent of survey respondents reported they were members of the North Carolina Association of Motor Vehicle Registration Contractors, Inc.

Finding 3. Lack of a standardized, performance-based contract for all license plate agency contractors limits accountability and oversight.

At the direction of the General Assembly, the Division of Motor Vehicles (DMV) began contracting registration and titling services to license plate agencies (LPAs) in 1961. Although the contract between DMV and LPAs has been revised several times to reflect changes in technology, compensation rates, deposit requirements, and business rules to meet requirements of the Americans with Disabilities Act, DMV did not introduce duration terms to contracts until 2007. Until then, contracts provided automatic renewal year to year with no express date for termination. In 2007, DMV created a two-year contract for new LPAs.²² DMV administrators realized a two-year term was not long enough and, in 2009, revised its contract for LPAs whose two-year term was expiring and for new LPAs. There are four major differences between the old, indefinite contract and the new, term-limited contract (see Exhibit 10).

Exhibit 10

Major Differences between Indefinite and Term-Limited Contracts

	Indefinite Contracts (n = 78)	Term-Limited Contracts (n = 40)
Duration	Automatic renewal year to year with no express date for termination	Three-year term with two one-year automatic extensions
Computer equipment	Contractor is responsible for safeguarding computer equipment provided by the State	Contractor must pay to lease computer equipment from the State
Public restrooms	LPA is not required to have a public restroom	LPA must have a public restroom
Notary fees	LPA is not required to report fees charged and collected	LPA is required to report fees charged and collected

Source: Program Evaluation Division based on data from the Division of Motor Vehicles.

Having two-thirds of LPAs operate under contracts with different terms from the other third of LPAs creates equity issues.

- **Three-year term.** Term-limited contracts have a three-year term with two one-year automatic extensions, after which the contract becomes month to month. According to DMV administrators, the benefits of the three-year contract are modernization of business practices, increased accountability, incentives for excellent performance, and increased competition. DMV recognizes that one of the drawbacks of the three-year contract is that it may be too short for businesses to recoup their up-front investment.
- **Leased computer equipment.** Term-limited contracts require LPAs to lease computer equipment from DMV, including a computer,

²² When new LPAs are needed, DMV posts the opening for 45 days. DMV screens applications for necessary skills, experience, and financial ability and invites qualified applicants for an interview. Applicants are assessed based on their professional presentation, interview performance, relevant job experience, and financial ability. Once a candidate is selected, DMV conducts a background check and approves the site for the new agency.

printer, and scanner, for \$68.60 per workstation per month; the funds are credited to a Department of Transportation revenue account. Requiring LPAs to lease computer equipment saves the State money and, according to DMV administrators, encourages the recruitment and retention of contractors who are committed to the business. If DMV were to start charging LPAs under indefinite contracts to lease computer equipment, their operating costs would increase between \$68.60 and \$1,029 per month, depending on how many workstations they have, and the State would save the \$31,134 it spent each month in Calendar Year 2011 on equipment for LPAs on indefinite contracts.

- **Public restrooms.** Term-limited contracts require LPAs to provide restroom facilities. DMV's rationale for requiring LPAs to have restrooms is longer customer wait times. According to DMV administrators, restroom access improves the customer experience and reduces customer complaints. However, a previous customer service survey by DMV found customers believed their wait times at LPAs were reasonable. If DMV were to require all LPAs to have public restrooms, some LPAs would have to make significant renovations and would have added cleaning and supply costs.
- **Notary fee collection.** Term-limited contracts require LPAs to provide detailed accounting to DMV of all notary fees collected.²³ All contractors, regardless of contract type, have refused to provide DMV this information, and DMV has been unsuccessful in its attempts to enforce this provision of the contract due to political pushback. DMV administrators reported their main concern about LPAs not reporting notary fees is that DMV cannot protect customers when there is no record of what transpired.

DMV administrators want all contractors to be on term-limited contracts.

In 2010, DMV sought the legal advice of the Attorney General to determine if it could cancel the indefinite contracts. Attorney General staff determined indefinite contracts could be cancelled within a reasonable time and upon reasonable notice, but the General Assembly prohibited the Commissioner of Motor Vehicles from cancelling any LPA contracts, except in cases of malfeasance, misfeasance, or nonfeasance, until this study's recommendations are acted upon by the Joint Legislative Program Evaluation Oversight Committee. As of January 2012, 40 (34%) LPAs operated under term-limited contracts, and 78 (66%) LPAs operated under indefinite contracts.

LPAs with indefinite contracts had more transaction errors and complaints on average than LPAs with term-limited contracts. As discussed in Finding 2, DMV reviews 20% to 25% of transaction paperwork completed by LPAs for errors. As shown in Exhibit 11, LPAs on indefinite contracts had more errors per LPA (mean = 55) than LPAs on term-limited contracts (mean = 38) in Fiscal Year 2010–11.²⁴ DMV also tracks the number of complaints filed against each LPA. LPAs on indefinite

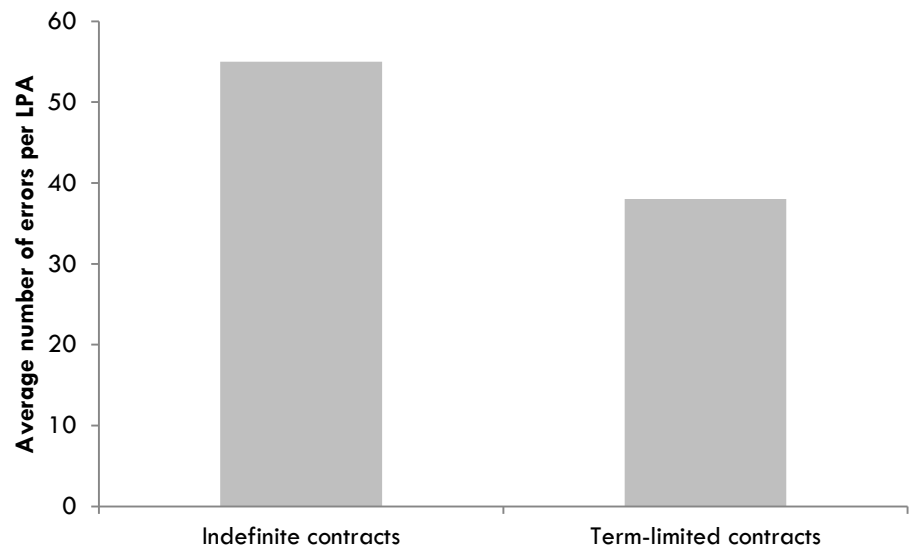
²³ Indefinite contracts require LPAs to abide by all rules and regulations set out in the Standard Operating Procedures Manual, and the 2009 version of the manual requires LPAs to report notary fee collection.

²⁴ This difference was statistically significant at $p < 0.05$.

contracts had more complaints per LPA (mean = 1.9) than LPAs on term-limited contracts (mean = 1.5) in Calendar Year 2011.²⁵ Field supervisors also observed they get more complaints about agencies with indefinite contracts.

Exhibit 11

LPAs on Indefinite Contracts Had More Transaction Errors Than LPAs on Term-Limited Contracts in Fiscal Year 2010–11



Source: Program Evaluation Division based on data from the Division of Motor Vehicles.

Having LPAs on different contracts makes enforcing contract compliance more difficult. DMV administrators have observed a difference in the mentality of LPA contractors on three-year contracts versus those on indefinite contracts. According to administrators, LPAs on indefinite contracts “do not take us seriously when we talk to them about errors and complaints,” and they do not believe DMV has any “teeth” to cancel their contracts.

The Program Evaluation Division surveyed the 11 field supervisors who work with LPAs to determine if they observed differences in operations between LPAs under the two types of contracts. Four field supervisors reported they did observe differences, and one commented, “The LPAs that are under new (term-limited) contracts are much more friendly. They care more about their offices and the quality service that they provide.” DMV staff responsible for training LPAs reported “older contract branches feel they ‘know it all’ and don’t pay attention,” whereas “newer ones know they have to do a good job to keep their contract so they try to do the best job they can.”

Term-limited contracts provide a greater level of accountability than indefinite contracts. Both the indefinite and term-limited contracts can be cancelled for several reasons.

- DMV can terminate either type of contract if LPAs fail to adhere to contract requirements or provisions of the Standard Operating Procedures Manual during their probationary period, which amounts to the first 180 days of operation with a possible 60-day extension.

²⁵ This difference was not statistically significant.

- DMV can cancel either type of contract immediately upon written notice for “cause,” which is defined similarly across both types of contracts. DMV has cancelled nine contracts for cause since 2009.
- Term-limited contracts can be cancelled by either DMV or LPAs for any reason, with or without cause, upon 60 days written notice, whereas indefinite contracts can be cancelled only by LPAs under this provision. DMV has never cancelled a contract without cause.

Although DMV has the power to terminate both types of contracts, term-limited contracts provide a greater level of accountability than indefinite contracts because they specify the time frame for LPA performance assessment. LPAs on term-limited contracts have a strong incentive to meet DMV’s expectations for performance because otherwise they risk losing their business.

Performance-based contracts would set expectations for LPAs and give DMV the ability to cancel contracts for less than criminal misconduct or fraud. Previous reports by the Program Evaluation Division have recognized the value of using contracts to set the stage for performance because expectations are written, binding, and defined at the outset.²⁶ When the Program Evaluation Division asked DMV administrators what their expectations were of LPAs as agents for the State, administrators reported they expected LPAs to process timely and accurate registration and titling services with a focus on good customer service. DMV could hold LPAs accountable for meeting expectations by incorporating three performance measures into LPA contracts.

- **Customer satisfaction.** Finding 2 discussed the need for DMV to conduct customer satisfaction surveys for the LPA program as a whole. In order to hold individual LPAs accountable for customer service, DMV would also need to collect customer satisfaction data at the LPA level and determine a threshold for acceptable performance. DMV could track customer satisfaction over time to determine if it increases or decreases.
- **Customer complaints.** DMV already uses customer complaints to gauge LPA performance. Customers can lodge complaints by phone, email, mail, or in person. All complaints are referred to the LPA’s field supervisor for investigation. The Standard Operating Procedures Manual stipulates the LPA contract may be canceled if two or more complaints are justified within a six-month period. Although both the indefinite and term-limited contracts bind LPAs to the Standard Operating Procedures Manual, incorporating performance measures directly into contracts is preferable because expectations are defined at the outset. In addition to holding LPAs accountable for justified customer complaints, DMV could track trends in customer complaints over time.

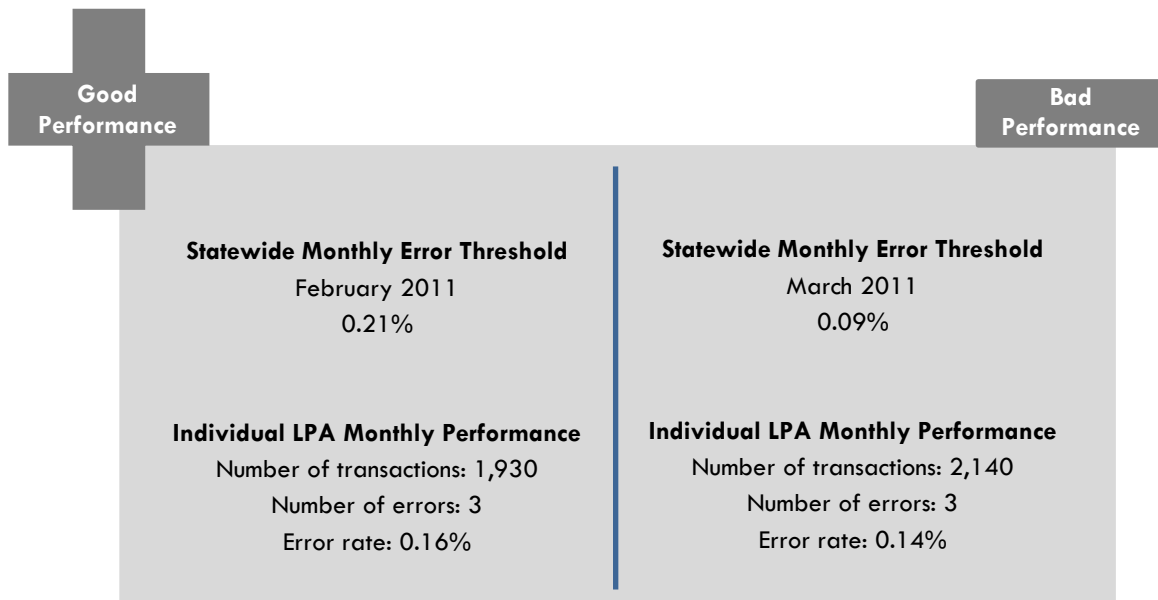
²⁶ Program Evaluation Division. (2009, November). *Accountability gaps limit state oversight of \$694 million in grants to non-profit organizations*. Report to the Joint Legislative Program Evaluation Oversight Committee. Raleigh, NC: General Assembly. Program Evaluation Division. (2010, April). *Legislative options for addressing deficiencies in state purchasing and contracting*. Presentation to the Joint Legislative Program Evaluation Oversight Committee. Raleigh, NC: General Assembly.

- **Transaction error rate.** DMV already uses transaction error rates to gauge LPA performance. The Quality Assurance Section checks a random daily sample of 20% to 25% of transaction paperwork completed by LPAs. Error rates for each contractor are calculated each month, and DMV has set the monthly statewide error threshold that LPAs should be under as twice the average error rate of all LPA contractors. DMV explained they change their benchmark from month to month to accommodate variations in the volume of processed transactions. The Standard Operating Procedures Manual states DMV administrators will determine the appropriate measures to be taken, up to and including contract cancellation, for LPAs with an error rate that exceeds twice the statewide average for four months in a row. Thus far, DMV has taken the measure of requiring LPAs to close for a few days while the entire staff attends remedial training. A performance-based contract would refer to the error threshold directly rather than indirectly through the Standard Operating Procedures Manual.

DMV's fluctuating error threshold for LPA contractors is not an effective way to monitor LPA performance.²⁷ The statewide monthly error threshold depends on the performance (or lack thereof) of other LPAs. If all LPAs are performing well, the error threshold is low; if not, the threshold is higher. In the past two fiscal years, this threshold has ranged from as low as 0.05% in February 2010 to as high as 0.21% in February 2011. The fluctuating error threshold means an LPA can exceed the threshold in one month and be below the threshold in another month based on the same number of errors (see Exhibit 12). Although LPAs can monitor their own performance by checking their work daily prior to submitting it to DMV or by reviewing a weekly error report produced by DMV, LPAs cannot gauge whether they are above or below the error threshold because the error threshold is not known until after all transactions have been processed for the month. An error threshold based on a fluctuating statewide average also means that DMV is not independently assessing the performance of each LPA. Whether an LPA is deemed to be above or below the threshold is largely dependent on the good or bad performance of other LPAs. Assessing LPA performance based on a fixed error threshold would provide a clear benchmark to monitor individual LPA performance and allow LPAs and DMV to monitor transactions and errors throughout the month.

²⁷ DMV already has a fixed monthly error threshold of 0.01% for its state offices. The Charlotte office exceeded this threshold each month in Fiscal Year 2010–11, and the Raleigh office exceeded this threshold for five months in Fiscal Year 2010–11. DMV administrators leave it up to the state office branch managers to decide how to address individual employee performance.

Exhibit 12: Same Number of Errors Can Indicate Good Performance One Month and Bad the Next

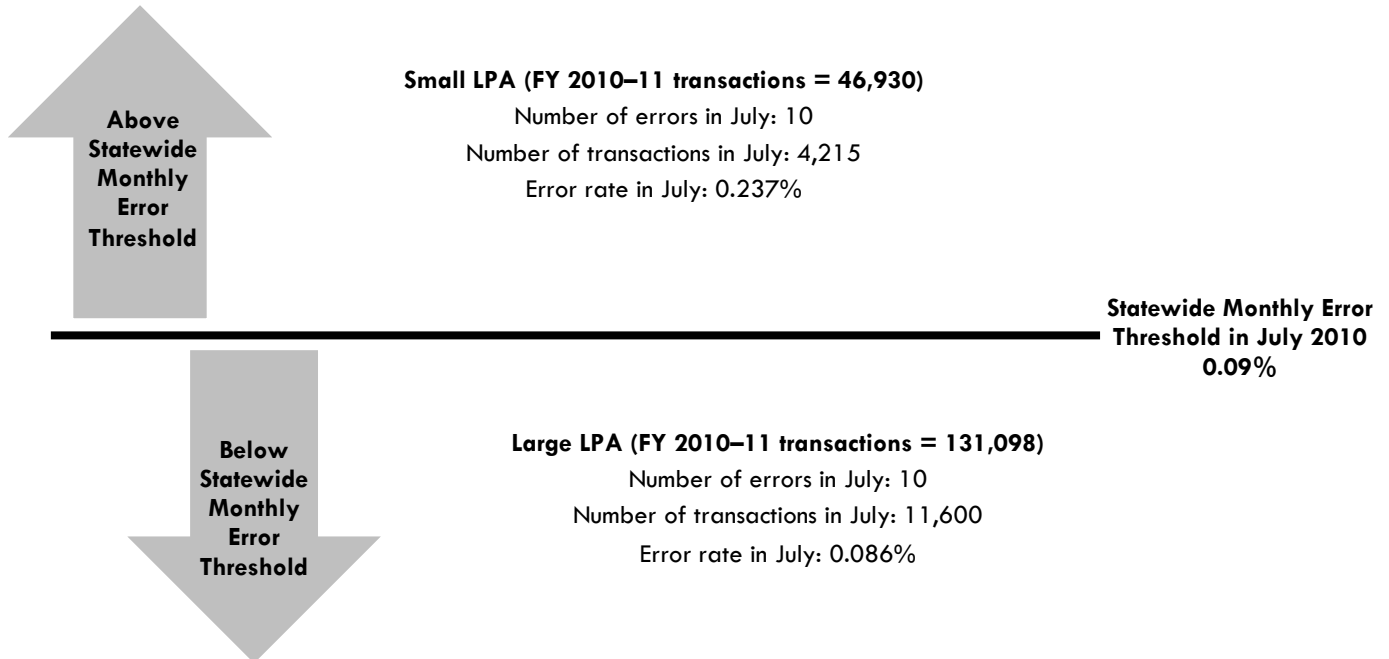


Note: The example above is based on actual data for one LPA contractor.

Source: Program Evaluation Division based on data from the Division of Motor Vehicles.

To determine what the fixed error threshold should be, the Program Evaluation Division took into consideration that small LPAs exceeded the fluctuating error threshold more often by nature of the number of transactions they performed. Quality Assurance staff reported “smaller branches suffer (by being) called out for a low number of errors,” and field supervisors reported that “smaller offices feel so much pressure from the error rates.” Exhibit 13 shows how two LPAs can have the same number of errors, but the LPA performing fewer transactions has a higher error rate.

Exhibit 13: Small LPAs Have Higher Error Rates than Large LPAs for the Same Number of Errors



Notes: The example above is based on actual data for two LPA contractors. The Program Evaluation Division defined small LPAs as those that perform 75,000 or fewer transactions per year and large LPAs as those that perform more than 75,000 transactions per year. The monthly statewide error threshold is twice the average error rate of all LPA contractors.

Source: Program Evaluation Division based on data from the Division of Motor Vehicles.

The Program Evaluation Division determined that LPAs performing 75,000 or fewer transactions per year (small LPAs) exceeded the statewide monthly error threshold more often than LPAs performing more than 75,000 transactions per year (large LPAs). When two fiscal years of monthly error rates were examined separately for the two groups, small LPAs had a mean monthly error rate of 0.0007 (or 0.07%) and large LPAs had a mean monthly error rate of 0.0004 (or 0.04%).

Using twice the mean monthly error rates, the fixed error threshold for small LPAs would be 0.14% and the fixed error threshold for large LPAs and the state offices would be 0.08%. If these fixed error thresholds had been applied in Fiscal Year 2010–11, 75% of small LPAs and 73% of large LPAs would have exceeded the threshold at least once.²⁸ More importantly from a contractor's perspective, 10% of small LPAs and 5% of large LPAs would have exceeded the threshold for four months in a row, requiring them to close for a few days and attend remedial training. Because error thresholds over the past two fiscal years have ranged from 0.05% to 0.21%, the fixed error thresholds of 0.08% for large LPAs and 0.14% for small LPAs would be stringent enough for DMV to hold LPAs accountable.

In sum, contracting with LPAs provides a cost-efficient way for the State to provide vehicle registration and titling services. DMV has mechanisms in place to provide guidance and accountability to contractors, but its oversight could be improved by focusing on overall program improvement,

²⁸ The state office in Charlotte would have exceeded the 0.08% threshold for nine months in Fiscal Year 2010–11, and the state office in Raleigh would not have exceeded this threshold.

improved coordination of oversight mechanisms, and better communication between DMV and LPAs. One of the biggest challenges to contract oversight is that two-thirds of LPAs are operating under indefinite contracts while the other third are operating under term-limited contracts. The lack of a standardized, performance-based contract for all contractors limits accountability and oversight.

Recommendations

Recommendation 1. The General Assembly should direct the Division of Motor Vehicles (DMV) to implement a standardized, performance-based contract for all license plate agencies (LPAs).

As shown in Finding 3, having two-thirds of LPAs operate under contracts with different terms from the other third of LPAs creates equity issues and complicates DMV's oversight of the LPA program. Furthermore, the absence of performance measures in either type of contract has limited DMV's ability to cancel contracts for anything less than criminal misconduct or fraud. To address these issues, the General Assembly should direct DMV to adopt a standardized, performance-based contract for all LPAs.

The contract should include the following provisions:

- **A five-year term with two one-year extensions subject to DMV's approval.** The current term-limited contract has a three-year term with two one-year automatic extensions, after which the contract becomes month to month. Both DMV and the North Carolina Association of Motor Vehicle Registration Contractors, Inc. reported a three-year contract may be too short for businesses to recoup their up-front investment in starting a business. Therefore, the Program Evaluation Division recommends an initial five-year term. Rather than providing automatic extensions and then converting to month to month, the contract should provide two one-year extensions subject to DMV's approval. At that time, the contract would be terminated, and the LPA could reapply through the competitive application process.
- **Contractors pay the State to lease computer equipment.** The State provides computer equipment to LPAs on indefinite contracts, whereas LPAs on three-year, term-limited contract are required to lease computer equipment from DMV for \$68.60 per workstation per month. For the LPA program to have a standardized contract, either all LPAs should pay or no LPAs should pay to lease computer equipment. If no LPAs pay to lease computer equipment, the annual costs of the LPA program to the State would increase by \$125,950 (the amount LPAs on term-limited contracts currently pay to lease computer equipment). If all LPAs pay to lease computer equipment, the State would receive an additional \$290,590 annually (the amount LPAs on indefinite contracts would owe for computer equipment). To shift the costs of computer equipment from the State to contractors, the Program Evaluation Division recommends requiring that all LPAs pay to lease computer equipment.

- **Contractors performing 75,000 or more transactions a year provide access to public restrooms.** The current term-limited contract requires all LPAs, regardless of how many transactions they perform, to provide public restroom facilities. DMV imposed this requirement to improve customer satisfaction, but a previous customer satisfaction survey found customers believed wait times at LPAs were reasonable. Because wait times should be affected by the number of transactions that an LPA processes, the Program Evaluation Division recommends requiring public restroom access only for LPAs that process a large number of transactions, which the division defined as 75,000 transactions or more a year.
- **Failure to report notary fee collection is grounds for contract termination.** The current term-limited contract requires LPAs to provide detailed accounting to DMV of all notary fees collected. However, all contractors, regardless of contract type, have refused to provide DMV this information. Because DMV cannot ensure LPAs are properly charging notary fees without LPAs reporting them, the Program Evaluation Division recommends making failure to report notary fee collection grounds for contract termination, adding it to the contract provision on termination for cause. In addition, the notary fees that are currently set by DMV in the LPA program's Standard Operating Procedures Manual should be incorporated into the contract.
- **Performance measures for customer satisfaction, customer complaints, and transaction errors.** For the LPA contract to be performance-based, it has to include performance measures that LPAs must meet in order to keep their contract. The Program Evaluation Division recommends contracts stipulate that LPAs receive a satisfactory rating on an annual customer satisfaction survey created by DMV, do not have two or more justified customer complaints within a six-month period, and do not exceed the transaction error threshold four months in a row. Based on monthly error rates over two fiscal years, the Program Evaluation Division recommends DMV initially adopt a fixed error threshold of 0.14% for small LPAs (those performing 75,000 or fewer transactions per year) and 0.08% for large LPAs (those performing 75,000 or more transactions per year) and the state offices. At the end of each calendar year DMV should examine how discriminating the error threshold was based on how many LPAs exceeded it, adjust the error threshold if needed, and in January notify all LPAs of the next year's error threshold. DMV should also track customer satisfaction and complaints over time to determine if they are increasing or decreasing.
- **DMV provides LPAs notice of any changes to the Standard Operating Procedures Manual (SOP) with 60 days for LPAs to comment and an additional 30 days for LPAs to implement the change for a total of 90 days.** The current term-limited contract binds LPAs to requirements established by the contract, the SOP, and any other requirements as may be mandated from time to time by DMV. DMV needs the flexibility to make adjustments to the SOP

due to changing circumstances (e.g., customers will be able to pay for transactions with credit cards when LPAs start collecting vehicle property taxes in 2013). The Program Evaluation Division recommends that DMV be required to provide LPAs notice of any changes to the SOP. LPAs should have 60 days to comment on the change and should have an additional 30 days to implement the change for a total of 90 days. The language “any other requirements as may be mandated from time to time by DMV” should be removed from the contract.

DMV should transition LPAs on indefinite contracts to the new standardized contract between January 1, 2013, and December 31, 2014. Giving DMV two years to transition from indefinite contracts to standardized contracts would stagger the expiration dates of the new standardized contracts. DMV should provide LPAs on indefinite contracts with six months written notice that their contract will be terminated, and the notice should explain the requirements for the new, standardized contracts. Notwithstanding N.C. Gen. Stat. Chapter 143, Article 8, LPAs currently on indefinite contracts should automatically be offered the new standardized contract if they choose to and meet the requirements stipulated by the contract.

DMV should transition LPAs on the current three-year term-limited contract to the new standardized contract at the end of their three-year term. The last three-year term-limited contract ends in July 2014. DMV should provide LPAs on three-year term-limited contracts with six months written notice that their contract will be terminated, and the notice should explain the requirements for the new, standardized contracts.²⁹ Notwithstanding N.C. Gen. Stat. Chapter 143, Article 8, LPAs currently on three-year term contracts should automatically be offered the new, standardized contract if they choose to and meet the requirements stipulated by the contract.

Recommendation 2. The General Assembly should direct the Division of Motor Vehicles (DMV) to improve oversight and communications in the License Plate Agency (LPA) program.

As shown in Finding 2, DMV’s oversight mechanisms assure LPAs adhere to operational requirements, deliver services accurately and effectively, and do not commit fraud. However, data also indicated DMV’s lack of attention to improving the LPA program as a whole, little focus on program quality improvement, and a high degree of tension between DMV administration and LPAs that together hinder the effective operations of the LPA program.

To address these issues, the General Assembly should direct DMV to take the following steps.

Improve communications with LPAs by implementing a secure website by July 1, 2013. Interviews and surveys indicated LPAs and DMV staff and administrators believe online communications would greatly improve the flow of information to LPAs. DMV should provide LPAs with access to a

²⁹ Although the three-year contracts have two one-year automatic extensions, they can be cancelled by DMV for any reason, with or without cause, upon 60-day written notice.

secure website. In addition to electronic manuals, the website should include all DMV forms, training forms, and other DMV documents and memos.

Establish an internal administrative working group of representatives from field supervisors, Quality Assurance, and Field Operations Support to coordinate oversight mechanisms and focus on overall program quality improvement. This group should meet quarterly and be responsible for

- creating a logic model for the overall program that includes performance measures, such as the one proposed in Exhibit 9;
- establishing protocols for formal coordination between the guidance and oversight mechanisms described in the Appendix of this report;
- working with the team involved in rewriting the State Titling and Registration System software to ensure it supports coordination and provides automated oversight to minimize transaction errors; and
- receiving reports from an LPA advisory group (see below) and incorporating LPA feedback in its work.

The working group should directly inform DMV policies and be responsible for establishing protocols that coordinate oversight and for maintaining focus on overall LPA program quality improvement.

Establish an LPA advisory group and a formal mechanism for the group to provide feedback to DMV and improve communications between DMV and LPAs. This group of no more than 12 members should be recommended by field supervisors and approved by the Commissioner of Motor Vehicles to represent LPA managers by LPA size, location across the State, and operational longevity. The advisory group should meet quarterly and report to the administrative working group on current LPA concerns and recommended DMV actions, LPA needs regarding guidance and support, input into the State Titling and Registration System rewrite, and feedback on the functionality of the LPA website.

Recommendation 3. The General Assembly should direct the Division of Motor Vehicles (DMV) to outsource the registration and titling services provided by the two state offices.

As shown in Finding 1, private contractors are a cost-efficient way for the State to provide registration and titling services to North Carolinians. On average, the State paid \$2.12 per transaction performed by private contractors and \$2.07 per transaction performed by local public entity contractors in Calendar Year 2011. In contrast, the State paid \$6.13 per transaction performed at the two state offices.

To address this cost differential, the General Assembly should direct DMV to outsource the registration and titling services that are currently provided at state offices. Based on Calendar Year 2011 data, the Program Evaluation Division estimates the State could save up to \$1.3 million annually (see Exhibit 7).

The state offices should not be closed completely because they would still need to provide the majority of for-hire/International Registration Plan services for commercial vehicles and to provide the specialized services

that are currently performed exclusively by state offices (e.g., instant title, error correction correspondence letters, issuance of certain specialty plates). In Calendar Year 2011, state offices performed 106,746 for-hire/International Registration Plan transactions and 88,651 specialized services. For customers that visit the state offices for either of these purposes, the state offices would still need to provide basic registration and titling services.

Even though the state offices should not close completely, their operating costs could be reduced substantially. The state offices would only perform “inherently government activities” in keeping with the federal government’s Office of Management and Budget Circular No. A-76 regarding performance of commercial activities. New LPA contractors would likely be needed to absorb the registration and titling transactions currently performed by the state offices, but the cost to the State would be fixed at the amount it pays contractors on a per-transaction basis.

DMV should report its plan for implementing this recommendation, including a calculation of cost savings, to the Senate Appropriations Committee on Department of Transportation and the House Appropriations Subcommittee on Transportation by December 1, 2012. DMV should outsource the registration and titling services provided at state offices by July 1, 2013.

Appendix

Appendix: License Plate Agency Guidance and Accountability Mechanisms

Agency Response

A draft of this report was submitted to the Division of Motor Vehicles to review and respond. Its response is provided following the appendix.

Program Evaluation Division Contact and Acknowledgments

For more information on this report, please contact the lead evaluator, Kiernan McGorty, at kiernan.mcgorty@ncleg.net.

Staff members who made key contributions to this report include Lee Creighton, Sean Hamel, Carol H. Ripple, and Pamela L. Taylor. John W. Turcotte is the director of the Program Evaluation Division.

Appendix: License Plate Agency Guidance and Accountability Mechanisms

The Program Evaluation Division identified 11 mechanisms administered by the Department of Motor Vehicles (DMV) that provide accountability and guidance for license plate agencies (LPAs). The following table shows more detailed information to complement Exhibit 8, and the following text provides more detail about how each operates.

Purpose of LPA Guidance and Accountability Mechanisms

Mechanism	Purpose	Guidance	Accountability
1. Standard Operating Procedures Manual (SOP)	The SOP defines day-to-day operational and compliance requirements for all LPAs.	✓	
2. Title Manual	The Title Manual provides comprehensive descriptive information on registration and titling services.	✓	
3. Emails and memos	DMV issues emails or memos to inform LPAs about changes to procedures, manuals, forms, and fees; to clarify policies; and to make announcements. Communications may be direct to LPAs or through field supervisors to convey to LPAs.	✓	
4. Training	DMV provides an initial three-week session to all new contract managers and staff that covers policies, procedures, and the State Titling and Registration System (STARS). DMV also provides remedial training to LPAs that repeatedly exceed statewide error thresholds or receive numerous customer complaints.	✓	
5. Help Desk	The Help Desk fields operational questions from LPAs, mostly about processes and entering information into STARS.	✓	
6. Contract terms	Contracts establish operational guidelines as defined in the SOP and provide the basis for cancellation of the contract.	✓	✓
7. Field audits	Field supervisors conduct on-site audits at each LPA every 30 to 45 days to monitor inventory, records, deposits, procedures, and the facility to assure compliance with the SOP; they also provide operational guidance to LPAs.	✓	✓
8. Inventory reconciliation fees	LPAs are required to pay for missing or damaged inventory, typically license plates or stickers; LPAs may charge fees to the employee responsible for the error.		✓
9. Customer complaints	Complaints may be lodged by phone, mail, email, or in person and are monitored and communicated to field supervisors to pursue with LPAs; consequences may include remedial training or contract termination.		✓
10. Department of Transportation's Fiscal Section	The Fiscal Section tracks daily bank deposits for timeliness and accuracy.		✓
11. Quality Assurance Section	The Quality Assurance Section audits 20%–25% of transactions for errors.		✓

Source: Program Evaluation Division based on documents provided by the Division of Motor Vehicles and interviews with division staff.

- 1. The Standard Operating Procedures Manual (SOP)** is the key reference for operations. The 17-page document includes operational requirements for LPA employees and contractors, the physical office, and business rules. As stated on the first page, "Strict adherence to [this manual] and to all items of the LPA Contract is required." Updates were made in 2009.
- 2. The Title Manual**, at 361 pages, is a comprehensive reference guide for vehicle licensing and registration. Updates were made in 2011.

3. **DMV emails and written memos** alert LPAs to changes to the SOP or Title Manual and provide other information to LPAs such as form changes, specialty plate announcements, fee changes, or clarifications. DMV sends memos and bulletins as email attachments directly to contractors or to field supervisors who may in turn forward them to LPAs.
4. **Training** is required for all new contractors and LPAs who need remedial guidance. Initial LPA training covers policies, procedures, and the computer system used by all LPAs, the State Titling and Registering System (STARS). LPAs that exceed the monthly transaction error threshold or are the subject of numerous customer complaints may be directed to attend remedial training to address their issues, or field supervisors may provide on-site remedial training.
5. **The Help Desk** is not directly involved in oversight but fields questions from LPAs. Administrators reported most calls are about how to enter a particular transaction into STARS, and more questions are about processes than about how to use the computer system. Often, the content is covered in the Title Manual, but LPAs may call for guidance because they are concerned about making mistakes. DMV administrators reported they are developing an electronic call log to track questions by type and by LPA, but at present there is no effort to keep track of questions received by the Help Desk.
6. **Contract terms** provide guidance by defining the terms under which LPAs retain their contracts. All contracts require adherence to the SOP. Contracts establish the most basic level of accountability because they define the terms by which LPAs are permitted to continue operating.
7. **Field audits** are conducted by field supervisors at each LPA every 30 to 45 days. Although the main purpose of field audits is to ensure accountability, the 11 field supervisors can fulfill a critical role in providing support and guidance to LPAs by working with managers and staff to improve operations and help them problem-solve. Visits may take from one-half to a whole day—depending on the size of the LPA (as indicated by the number of transactions)—and part of that time may be spent providing guidance. One supervisor explained he strives to have the LPAs avoid transaction errors “because that means I have trained them well.” He also explained, “our job is to make sure LPAs are following the rules in the SOP” and to help them serve customers.

Field supervisors hold LPAs accountable by inspecting facilities, equipment, and staffing for compliance; ensuring bank deposits are timely and correct; examining transaction error reports to verify the errors and determine which employees are responsible; and reconciling inventories. During the audit, each field supervisor completes a one-page checklist, the 520 form.³⁰ A central purpose of these audits is to enforce compliance with the SOP and also to prevent fraud, which is a critical function because, as one supervisor noted, LPA employees can “game the system.”

8. **Inventory reconciliation fees** enforce LPA accuracy by determining whether LPAs are responsible for missing or damaged items. If they are responsible, LPAs are required to reimburse DMV for the item (typically a license plate or registration sticker). As compared to the amount LPAs receive from DMV per transaction (\$1.43 to \$3.70), the penalty for missing inventory is high (e.g., \$28 per registration validation sticker, \$15 per passenger vehicle plate, \$123 per private truck plate), which motivates LPAs to accurately account for their inventory. Inventory problems can be traced back to the responsible employee, and some LPAs charge the responsible employee for the fee.
9. **Customer complaints** reflect customer satisfaction and are important because customer service is a central goal of the LPA program. Customer complaints may be lodged in several ways:
 - by phone to DMV (“Contact Us,” DMV Call Center, Commissioner’s Hotline, or Director’s office);
 - by mail addressed to DMV Headquarters in Charlotte and Raleigh;
 - by email to DMV “Contact Us” or the Governor’s, Legislative, or Director’s offices; and
 - in person at DMV Headquarters in Charlotte and Raleigh or at LPAs.

³⁰ LPA site visits conducted by the Program Evaluation Division found that LPAs were largely in compliance with SOP specifications.

All correspondence related to a complaint is recorded in the LPA's file, and complaints are referred to the LPA's field supervisor for investigation. In 2011, 77 of 118 contractors (65%) had one or more complaints (1.8 complaints per LPA). DMV administrators reported to the Program Evaluation Division that field supervisors identified the following most frequent complaints.

- The customer did not agree with policy, procedure, or General Statute as stated by LPA.
- Customer service, including long wait times, rude staff, inaccurate or incomplete information, or the office closed for emergency or vacation.
- Concerns about notarization, including questions about which documents had to be notarized at the LPA; when customers could be charged a notary fee (e.g., when title assignment was already notarized but customer was charged for additional notarization); having to pay notary fees separately by cash or check; and questions about why the notary fee was not included on the DMV receipt.

Complaints are taken seriously: the LPA contract may be canceled if two or more complaints are justified within a six-month period.

10. The Department of Transportation's Fiscal Section tracks daily deposits to ensure LPAs meet the deadline (2:00 PM the next day) and to identify any deposit discrepancies. When fiscal issues come up, monitors contact the LPA program director, who either resolves the problem or refers it to the field supervisor to follow up. By ensuring accurate bank deposits, fiscal audits prevent LPA fraud.

11. The Quality Assurance Section checks a random daily sample of 20% to 25% of transaction paperwork completed by LPAs. Documents are first electronically scanned then checked for completeness and errors (for new LPAs, those in operation for 90 or fewer days, 100% of transactions are reviewed). Quality Assurance Section administrators explained many of the errors can only be detected by visually examining the documents, making automation impossible. Administrators compile annual counts of the most frequent errors, the majority of which involve incorrect titles issued or incomplete forms. Some errors are considered more serious because they could create state liability (e.g., a lien on a vehicle is not recorded), but all errors are problems because a document with errors could be challenged in court.

Because the Quality Assurance Section examines 20% to 25% of daily transactions, the number of errors identified is a fraction of errors committed among all transactions. Based on the number of errors they find in what they do check, Quality Assurance staff knows there are lots of errors made that are not caught. Even in the documents that are examined, errors may not be detected because the size of the Quality Assurance staff has remained constant (with 16 employees), even as the number of documents that comprise the random sample has increased.



STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION
DIVISION OF MOTOR VEHICLES

BEVERLY EAVES PERDUE
GOVERNOR

EUGENE A. CONTI, JR.
SECRETARY

April 16, 2012

John W. Turcotte, Director
Program Evaluation Division
300 North Salisbury Street, Suite 100
Raleigh, NC 27603

Dear Mr. Turcotte,

Thank you for your consideration of our comments on the draft evaluation of the Commission Contract for the Issuance of Plates and Certificates Program. The following are our revised comments on the final report.

Finding 1:

Contracting with license plate agencies is a cost-efficient way for the State to provide vehicle registration and titling services.

Your report states that the operating per transaction cost for the two state run offices is \$6.13. Given that the state would pay private contractors an average of \$1.59 per transaction for work not performed at a state office, the state offices per transaction cost should be reduced by \$1.59, bringing the actual per transaction cost of the state run offices to \$4.54.

Staff size and salaries drive the operating costs of the state offices.

We agree that the staff size and salaries drive the operating costs of the state offices. However, state offices provide many other functions in addition to titles and registrations that are beyond the scope of an LPA, e.g., resolving correspondence file issues to generate titles as a result of LPA errors.

Finding 2:

Although the Division of Motor Vehicles has mechanisms in place to provide guidance and accountability, lack of coordination and poor communication hinder oversight of license plate agencies.

While some level of lack of coordination and poor communication has hindered DMV's oversight of LPAs, we disagree that it exists to the extent described in the evaluation. DMV administrators focus on improving all LPAs and work with each LPA to improve its overall performance.

DMV administrators do not think of the LPA program as a program per se.

This is correct. The Division of Motor Vehicles operates and is responsible for the State Titling and Registration Program, and the LPAs are a piece of this program. The private contractors and state run offices are customer service delivery mechanisms in the Titling and Registration Program. All LPAs receive the same training and are held to the same standards, and all operate by the same policies, procedures and guidelines.

Data collected for this evaluation indicated DMV oversight mechanisms (shown in Exhibit 8 and described in the Appendix) are not well coordinated.

Eleven field supervisors provide oversight to the 126 LPAs and the two state offices that are listed in this report. A field supervisor could spend between four to 16 hours to properly audit a branch depending on the size and information that is reviewed during that visit. The purpose of the audit is two-fold, one to conduct an audit of the state's property, which consists of inventory of plates (missing, damage, etc.), and the deposit of state funds and secondly, to work with the LPA to improve the overall performance. The findings from the audit are discussed with the contractor or manager to assist them in improving their business and help their employees in performing their job. DMV management will look at ways to better coordinate feedback from Field Supervisors, Quality Assurance Unit and the Help Desk.

This evaluation found evidence of friction and communication problems between DMV and LPAs

While we agree some friction and inadequate communication exists between DMV and the LPAs, we do not believe this is the case with each individual LPA. In addition, implementation of many of the recommendations will address both the friction and communication concerns of both DMV and the LPAs.

Finding 3:

Lack of a standardized, performance-based contract for all license plate agency contractors limits accountability and oversight.

We concur with all findings for this group.

Recommendation 1. The General Assembly should direct the Division of Motor Vehicles (DMV) to implement a standardized, performance-based contract for all license plate agencies (LPAs).

We agree with all components of this recommendation.

Recommendation 2. The General Assembly should direct the Division of Motor Vehicles (DMV) to improve oversight and communications in the License Plate Agency (LPA) Program.

We agree with this recommendation, but only if implemented in conjunction with Recommendation 1. Attempts at increased oversight and communications will be less effective without a standardized, performance-based, time-limited contract. DMV is already planning to implement a piece of this recommendation as part of the Department of Transportation's effort to establish a system of "Extranet" sites for targeted stakeholder groups. These are similar to Web sites, but on specific topics and accessed by a limited audience. DMV is piloting two of these sites. Once the initial sites are established and functioning well, the next site will be developed for the License Plate Agencies.

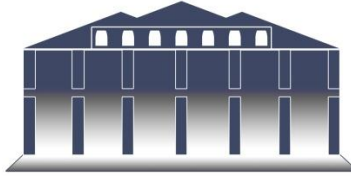
Recommendation 3. The General Assembly should direct the Division of Motor Vehicles (DMV) to outsource the registration and titling services provided by the two state offices.

Standard titling and registration services could be outsourced to additional contract license plate agencies. One concern is that the state offices, especially the Raleigh location, serve as test environments and model offices. The majority of process and procedure changes are tested at the state offices before being transitioned to the contract LPAs.

I appreciate the opportunity to respond to this evaluation, and again thank your staff for their thoroughness and professionalism. Please let me know if you have any questions.

Sincerely,

Johanna H. Reese
Deputy Commissioner



Program Evaluation Division
North Carolina General Assembly
Legislative Office Building, Suite 100
300 North Salisbury Street
Raleigh, NC 27603-5925
919-301-1404
www.ncleg.net/PED

150 copies of this public document were printed at a cost of \$83.10 or \$0.55 per copy.

A limited number of copies are available for distribution through the Legislative Library:

Rooms 2126, 2226
State Legislative Building
Raleigh, NC 27601
919-733-7778

Room 500
Legislative Office Building
Raleigh, NC 27603
919-733-9390

The report is also available online at www.ncleg.net/PED.