USE OF INCOME DERIVED FROM THE COMMERCIAL DRIVER’S LICENSE INFORMATION SYSTEM FOR MODERNIZATION

Federal Motor Carrier Safety Administration

Report Number: MH-2008-059
Date Issued: July 10, 2008
Subject: ACTION: Report on Use of Income Derived from the Commercial Driver’s License Information System for Modernization
Federal Motor Carrier Safety Administration
Report No. MH-2008-059

From: Joseph W. Comé
Assistant Inspector General
for Highway and Transit Audits

To: Federal Motor Carrier Safety Administrator

This report presents the results of the Office of Inspector General’s (OIG) audit of the amount and use of income derived from the Commercial Driver’s License Information System (CDLIS). The Federal Motor Carrier Safety Administration (FMCSA) is responsible for oversight of CDLIS, which is a nationwide clearinghouse of driving records for commercial drivers.

The Commercial Motor Vehicle Safety Act of 1986\(^1\) limited commercial drivers to a single driver’s license and required states to exchange information on commercial drivers through a nationwide information system. States use CDLIS to check the driving history of a commercial driver’s license (CDL) applicant before issuing the license and to report traffic convictions of commercial drivers licensed in other states. CDLIS contains records for each registered commercial driver with identification data, such as name, social security number, and date of birth. The records are linked to the licensing states where detailed driver records are located. When a driver is convicted of a disqualifying violation while driving a commercial vehicle, the state that issued the CDL must disqualify the driver. Because of the information CDLIS provides on disqualifying violations, it plays a critical role in keeping unsafe commercial drivers off the road.

CDLIS is operated by the American Association of Motor Vehicle Administrators (AAMVA),\(^2\) under a 1988 operating agreement with the Department of

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\(^2\) AAMVA is a non-profit organization of state motor vehicle officials who administer and enforce motor vehicle laws.
Transportation (DOT). This agreement provides broad authority for AAMVA to operate CDLIS but makes no mention of funding for the operation, maintenance, or modernization of the system. Since becoming fully operational in 1992, CDLIS has been supported by fees paid to AAMVA by states and other users. As of February 2008, CDLIS had more than 13.4 million driver records. The states pay AAMVA an annual $1.00 user fee for each CDLIS record. This fee covers operating costs, such as leased line services, and allows users unlimited transactions, such as changes in driver identification information and interstate transfers of driver history records.

In August 2005, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU)\(^3\) authorized $28 million in grants for fiscal years (FY) 2006 through 2009 to modernize CDLIS. Modernization is intended to improve the security and effectiveness of CDLIS and to prevent system degradation as usage and requirements grow.

In August 2006 and July 2007, FMCSA and AAMVA entered into grant agreements to modernize CDLIS. FMCSA has awarded nearly $12 million to AAMVA and plans to award $8 million in FY 2008 to the states to assist in making their driver’s licensing information systems compatible with the modernized CDLIS. FMCSA also plans to award the remaining $8 million to AAMVA and the states in FY 2009. These grants will assist AAMVA and the states in implementing modernized software by December 2010, as required.

Section 4123(f) of SAFETEA-LU requires that OIG conduct an audit to analyze the amount and use of revenue derived from CDLIS user fees. This audit responds to that requirement. The objectives of our audit were to: (1) determine how net income should be used under the CDLIS modernization grant, (2) identify total revenue derived from CDLIS user fees, the amount of related expenses AAMVA incurred, and net income, and (3) determine how the net income was used.

To address our objectives, we compared AAMVA’s financial statements and independent audit reports on the financial statements for FYs 2003 through 2005, the period under audit. We examined, on a test basis, records supporting AAMVA’s statements of CDLIS revenue and operating costs for the 3-year period. We also examined legal issues governing the use of revenue CDLIS generated during the SAFETEA-LU modernization grant period.\(^4\)

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\(^4\) SAFETEA-LU also requires that OIG (1) validate state-by-state CDLIS data, (2) determine the extent to which convictions are posted on commercial driver records, (3) make recommendations and develop a methodology for annually updating the baseline audit to ensure shortcomings in CDLIS are addressed, and (4) identify state-by-state actions necessary to improve the integrity of CDLIS data and to ensure the proper posting of convictions. We will address these remaining SAFETEA-LU requirements in a separate audit report.
We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States and we performed such tests as we considered necessary to detect fraud, waste, and abuse. Exhibit A describes the scope of our audit and the methodology we used to achieve our objectives.

RESULTS IN BRIEF

Our audit found that under the regulation governing Federal grants for modernizing CDLIS, program income derived from CDLIS revenue and fees during the grant project period must be used for operating and modernizing the system. We calculated that AAMVA accrued net income derived from CDLIS revenue and fees of $22.02 million for the 3 years ending on September 30, 2005.\(^5\) As of May 20, 2008, the date of our draft report, FMCSA and AAMVA had not changed the treatment of CDLIS program income by completing a revision of their 1988 operating agreement to identify the modernization project period and to identify the specific duties and responsibilities for each party.

However, in its June 20, 2008, written response to our draft report, FMCSA stated that it had entered into a new Cooperative Agreement with AAMVA, on June 9, 2008, to reflect the current programs, systems, and organizational changes that occurred since the 1988 operating agreement was ratified. The new Cooperative Agreement appears to address our finding that the treatment of CDLIS program income must be changed to ensure that income derived from CDLIS revenue and fees during the grant project period is used for operating and modernizing the system, that provisions are made for states to pay for future CDLIS enhancements, and that AAMVA accounts for and reports to FMCSA the amount and use of program income from CDLIS. We commend FMCSA for taking this needed action and going forward we will verify the provisions of the agreement and its implementation.

AAMVA Must Change Treatment of CDLIS Program Income Under the Modernization Grant. Since the inception of the 1988 operating agreement with DOT, AAMVA has used CDLIS revenue to fund both CDLIS and non-CDLIS programs and services. The operating agreement did not restrict AAMVA’s use of CDLIS revenue. However, upon the August 2006 award of the grant to modernize CDLIS, CDLIS became a grant-supported activity subject to the Federal regulation known as the common rule.\(^6\)

The common rule governs the use of program income, which is income earned from grant-supported activities. The rule prescribes three options for using

\(^5\) Our audit covered FYs 2003 through 2005, the three financial statement periods preceding our review.

\(^6\) 49 C.F.R. Part 19, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.”
program income: (1) add the income to project-committed funds and use it to further project objectives, (2) use the income to finance the non-Federal share of the grant, and (3) deduct the income from total project allowable costs in determining the net allowable costs on which the Federal share is based. The common rule further requires that program income be deducted from the Federal share, unless otherwise stated in the grant agreement.

At the time of our audit, FMCSA and AAMVA were negotiating a revised operating agreement to identify the specific duties and responsibilities for each party for the modernization project. Under the common rule, the project period started upon award of the first modernization grant in August 2006. However, FMCSA had not implemented the common rule pending completion of the revised operating agreement. In addition, the project was 1 year behind schedule, due to uncertainties regarding the use of CDLIS for complying with the Real ID Act of 2005 and coordination with the Department of Homeland Security (DHS). The Real ID Act set minimum standards for state-issued driver’s licenses and requires states to check documents presented to other states prior to issuing a driver’s license. DHS and FMCSA are considering CDLIS as a potential platform for verifying that a person does not hold more than one valid driver’s license.

According to FMCSA, making modernization changes without considering the requirements of the Real ID Act would not be prudent. As a result, AAMVA has drawn only $2 million in modernization grant funds to date. We realize the importance of considering the impact of the Real ID Act on modernization, but to comply with the provisions of the common rule, FMCSA and AAMVA must finalize the operating agreement.

With the June 9, 2008, signing of a Cooperative Agreement, FMCSA must now verify that AAMVA uses the funds to pay for CDLIS-related expenses only, including modernization costs. This verification is important because CDLIS must be self-sustaining. SAFETEA-LU requires that states pay for modernizing CDLIS in the future. Therefore, the states must ensure that money is available after the project period to pay for the costs of modernization. AAMVA has realized net income from CDLIS operations in prior years, and future net income could be retained in a reserve fund as a set-aside for CDLIS operations and modernization.

For the 3 years ending on September 30, 2005, AAMVA calculated gross earnings of $41.91 million, expenses of $24.23 million, and net income of $17.68 million from CDLIS operations. However, based on our statistical and non-statistical sample tests of AAMVA’s revenue and expenses, and supporting financial records, we calculated net income of $22.02 million. Our net income calculation

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was $4.34 million more than AAMVA’s calculation because AAMVA could not support $1.55 million for salary and overhead adjustments and did not include a pro-rata share of its investment income calculated at $2.79 million. For example, in its statement of CDLIS expenses, AAMVA included salaries and expenses that had already been charged to CDLIS in overhead pools.

We found that AAMVA used $22 million in net income for the 3 fiscal years to fund both CDLIS and non-CDLIS programs and services. For example, AAMVA funded approximately $6 million for the National Motor Vehicle Title Information System, which allows motor vehicle agencies to verify the validity of vehicle ownership before issuing new titles and $5.4 million for various technology applications and networking services to facilitate the electronic exchange of information between jurisdictions.

We made two recommendations that focused on actions FMCSA needs to take to ensure income earned from the operation of CDLIS is used to pay for CDLIS-related costs only. Our full recommendations are listed on page 9.

In its June 20, 2008, comments to our May 20, 2008, draft report, FMCSA concurred with our recommendations. FMCSA stated that it had taken steps to implement both recommendations and provided specific details of the actions it plans to take to address the recommendations. FMCSA’s comments and our response are fully discussed on pages 9 and 10. FMCSA’s complete comments are included in the Appendix to this report.

**FINDING**

**AAMVA Must Change Treatment of CDLIS Program Income Under the Modernization Grant**

Under the regulation governing Federal grants for modernizing CDLIS, income derived from CDLIS revenue and fees during the grant project period must be used for operating and modernizing the system. As of May 20, 2008, FMCSA and AAMVA had not completed revision of their 1988 operating agreement to identify the modernization project period and to identify the specific duties and responsibilities for each party. We calculated that AAMVA accrued net income derived from CDLIS revenue and fees of $22.02 million for the 3 years ending on September 30, 2005.

**CDLIS Program Income Must Fund Only CDLIS-Related Expenses.** Since the inception of the 1988 operating agreement with DOT, AAMVA has used CDLIS revenue to fund both CDLIS and non-CDLIS programs and services. The operating agreement did not restrict AAMVA’s use of the CDLIS revenue. However, upon award of the grant to modernize CDLIS in August 2006, CDLIS
became a grant-supported activity subject to the Federal regulation known as the common rule. This rule governs the use of program income, which is income earned from grant-supported activities. The common rule prescribes three options for using program income: (1) add the income to project-committed funds and use it to further project objectives, (2) use the income to finance the non-Federal share of the grant, and (3) deduct the income from total project allowable costs in determining the net allowable costs on which the Federal share is based. The common rule further requires that program income be deducted from the Federal share, unless otherwise stated in the grant agreement.

At the time of our audit, FMCSA and AAMVA were negotiating a revised operating agreement to identify the specific duties and responsibilities for each party for the modernization project. Under the common rule, the project period started upon award of the first modernization grant in August 2006. However, FMCSA had not implemented the common rule pending completion of the revised operating agreement. In addition, the project was 1 year behind schedule, due to uncertainties regarding the use of CDLIS for complying with the Real ID Act of 2005 and coordination with the Department of Homeland Security (DHS). The Real ID Act set minimum standards for state-issued driver’s licenses and requires states to check documents presented to other states prior to issuing a driver’s license. DHS and FMCSA are considering CDLIS as a potential platform for verifying that a person does not hold more than one valid driver’s license.

According to FMCSA, making modernization changes without considering the requirements of the Real ID Act would not be prudent. As a result, AAMVA has drawn only $2 million in modernization grant funds to date. We realize the importance of considering the impact of the Real ID Act on modernization, but compliance with the provisions of the common rule is imperative.

With the June 9, 2008, signing of a Cooperative Agreement, FMCSA must now monitor AAMVA’s expenditures to verify that AAMVA uses grant funds and program income to pay for CDLIS-related costs only, including current and future modernization and system enhancements designed to reduce fraud. This verification is important because CDLIS must be self-sustaining. SAFETEA-LU requires that states pay for modernizing CDLIS in the future; therefore, states must have funds available to pay for additional costs of modernization after the Federal grant funds are spent. AAMVA has realized net income from CDLIS operations in prior years, and future net income could be set aside in a reserve fund for CDLIS operations and modernization.

**AAMVA Generated Net Income From CDLIS.** At the time of our review, AAMVA’s consolidated financial statements for FYs 2003 through 2005 did not segregate CDLIS operations from its overall operations. At our request, AAMVA prepared a report of CDLIS revenue and expenses, using data from its accounting
AAMVA’s calculation of CDLIS net income included adjustments for salaries and overhead costs for some of its employees. According to its calculations for the 3 years ending on September 30, 2005, AAMVA’s gross income from operating CDLIS was $41.91 million, expenses were $24.23 million, and net income was $17.68 million. However, we calculated net income from CDLIS of $22.02 million, based on the results of our statistical and non-statistical sample tests of AAMVA’s revenue and expenses and our review of supporting financial records.

Our calculation of $22.02 million in net income was $4.34 million more than AAMVA’s calculation of $17.68 million because AAMVA (1) could not support $1.55 million for salary and overhead adjustments and (2) did not include a pro-rata share of its investment income calculated at $2.79 million.

**AAMVA Overstated Labor, Fringe Benefits and Overhead Costs.** AAMVA deducted indirect salaries, fringe benefits, and overhead expenses for 29 employees and members of the AAMVA Board of Directors who worked on CDLIS programs. AAMVA claimed the 29 employees worked on CDLIS or CDLIS-related programs, but did not charge time directly to those programs.

To verify this adjustment, we judgmentally selected and reviewed a sample of the 29 employees’ payroll records for 8 of the 78 pay periods in the 3-year period. AAMVA’s adjustment included (1) the salary and fringe benefits in 2003 for one employee who was not employed in 2003, (2) salaries for five employees that had already charged time directly to CDLIS, and (3) salaries for six employees and expenses for the Board of Directors that had already been charged to CDLIS in overhead pools. Based on the results of our review of AAMVA’s payroll records, we concluded that AAMVA overstated the salaries, fringe benefits, and overhead costs by $1.55 million.

AAMVA’s calculation of net income for the 3-year period did not include a $2.79 million pro-rata share of AAMVA’s investment income of $5.74 million. AAMVA earned investment income on assets purchased with revenue generated, in part, by CDLIS. We calculated the CDLIS investment income using the ratio of CDLIS total gross income of $41.91 million to AAMVA’s total gross income of $86.24 million from all sources, or 49 percent of the $5.74 million in investment income that AAMVA reported. According to the Government Accountability Office, grant-generated income includes investment income.

As shown in table 1, CDLIS revenue significantly exceeded CDLIS expenses for the 3-year period, according to both OIG and AAMVA calculations.

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Table 1. CDLIS Net Income for 3-Year Period Ending September 30, 2005 ($ in millions)

<table>
<thead>
<tr>
<th>CDLIS Revenue and Expenses</th>
<th>OIG’s Calculation*</th>
<th>AAMVA’s Calculation (3 Years)</th>
<th>Difference in OIG and AAMVA Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY 2003</td>
<td>FY 2004</td>
<td>FY 2005</td>
</tr>
<tr>
<td>CDLIS Revenue</td>
<td>$13.29</td>
<td>$14.10</td>
<td>$14.52</td>
</tr>
<tr>
<td>CDLIS Expenses</td>
<td>(7.91)</td>
<td>(7.02)</td>
<td>(7.75)</td>
</tr>
<tr>
<td>Prorated share of Investment Income</td>
<td>1.12</td>
<td>0.71</td>
<td>0.96</td>
</tr>
<tr>
<td>Total Net Income</td>
<td>$6.50</td>
<td>$7.79</td>
<td>$7.73</td>
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</table>

* OIG calculation based on analysis of AAMVA’s records.

AAMVA’s Use of CDLIS Net Income. Our audit found that AAMVA used approximately $22 million in net income for the three fiscal years to fund both CDLIS and non-CDLIS programs and services. Under its 1988 operating agreement with DOT, AAMVA used CDLIS income to purchase investments, set up reserve funds, and fund both CDLIS and non-CDLIS programs and services.

AAMVA’s expenditures for non-CDLIS programs and services, for the 3 years ending September 30, 2005, provided benefits to state safety programs. In addition to operating CDLIS, AAMVA serves as an information clearinghouse for motor vehicle administration, law enforcement, and highway safety issues. AAMVA’s programs encourage uniformity and reciprocity among the states, Canadian provinces, and liaisons with other levels of government and the private sector. Specifically, AAMVA funded approximately:

- $6.0 million for the National Motor Vehicle Title Information System, which inhibits title fraud and automobile theft by allowing motor vehicle agencies to verify the validity of ownership before issuing new titles.
- $5.4 million for various technology applications and networking services to facilitate the electronic exchange of information between jurisdictions.
- $3.8 million for government and public affairs, such as monitoring Federal and state legislative initiatives affecting the motor vehicle and law enforcement communities.
- $3.8 million for programs to promote uniformity in issuing commercial and non-commercial driver’s licenses, testing and vehicle registration, and driver fitness.
- $1.2 million for conference expenses and training for AAMVA members related to motor vehicle safety issues.
• $1.7 million for other programs, such as ID Security and AAMVA’s strategic planning process.

Although AAMVA had the flexibility to spend CDLIS program income on non-CDLIS expenses in the past, the common rule requires that program income derived from CDLIS revenue and fees during the modernization grant project period must be used for operating and modernizing the system. As such, it is imperative that the revised operating agreement identifies the specific duties and responsibilities for each party. Additionally, FMCSA must verify that AAMVA accounts for program income and uses the funds only to pay for the operation, maintenance, and modernization of CDLIS.

RECOMMENDATIONS

We recommend that the FMCSA Administrator:

1. Amend the 1988 operating agreement to ensure that AAMVA:

   a. uses CDLIS program income in accordance with the common rule.

   b. makes provisions for a reserve fund or other funding vehicle for states to pay for future CDLIS enhancements.

2. Ensure that AAMVA accounts for and periodically reports to FMCSA the amount and use of CDLIS program income during the modernization project period, retroactive to August 2006.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In its June 20, 2008, written comments to our draft report, FMCSA concurred with our two recommendations and provided an action plan to address each of the recommendations, including actions it had already initiated. FMCSA’s complete comments to our recommendations are included as an Appendix to this report.

FMCSA agreed to take the following actions.

• Recommendation 1, FMCSA stated that it agreed to and signed a Cooperative Agreement with AAMVA on June 9, 2008. This agreement defined prescriptive requirements on AAMVA’s use of income derived from CDLIS. Consistent with the common rule, AAMVA will use program income to fund eligible CDLIS modernization project or program objectives and requirements described by the Cooperative Agreement, and will retain a portion of program income to fund future modernization efforts without funding from FMCSA.
These provisions will remain in effect as long as AAMVA is the designated operator of CDLIS.

• Recommendation 2, FMCSA stated that the Cooperative Agreement requires that AAMVA, by December 9, 2008, provide FMCSA a financial report on program income and expenditures from August 31, 2006, to June 30, 2008. Thereafter, AAMVA must provide FMCSA a quarterly financial report on program income and expenditures for eligible activities. Finally, AAMVA must provide FMCSA audited financial reports for each Federal fiscal year no later than January 31 of the following fiscal year.

We consider FMCSA’s current and planned actions for our two recommendations to be responsive; and therefore, consider the recommendations resolved. We will, however, continue to monitor the status of FMCSA’s implementation of our recommendations, and the recommendations will remain open until FMCSA completes its proposed actions.

We appreciate the courtesies and cooperation of FMCSA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5630 or Kerry R. Barras, Program Director, at (817) 978-3318.

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EXHIBIT A. OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to: (1) determine how net income should be used under the CDLIS modernization grant, (2) identify total revenue derived from CDLIS user fees, the amount of related expenses AAMVA incurred, and net income, and (3) determine how the net income was used.

We conducted this performance audit from August 2006 through May 2008 in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States and performed such tests as we considered necessary to detect fraud, waste, and abuse.

We reviewed AAMVA’s financial statements and independent audit reports on the financial statements for FYs 2003 through 2005. We analyzed AAMVA’s subsidiary records for CDLIS revenue and operating costs and revenue expended on non-CDLIS-related programs for this period. Further, we examined legal issues governing the use of income generated by CDLIS through review of pertinent public laws, the United States Code, and the Code of Federal Regulations and through discussions with OIG and FMCSA attorneys.

We tested certain data fields in AAMVA’s FYs 2003 through 2005 CDLIS income and expense transaction database for data entry errors. To determine the accuracy of documentation supporting CDLIS revenue and expenses, we selected a simple statistical random sample of 70 AAMVA income and expense transactions for fiscal years 2003 through 2005. We reviewed the 70 sample records for (1) approval, (2) adequate support, (3) matching line items, (4) consistent account numbers between schedule and supporting documents, and (5) duplicate transactions. Based on the results of our tests for data entry errors and our statistical sample of CDLIS transactions, we concluded that the data were sufficiently reliable to meet our audit objectives.

In assessing the validity of AAMVA’s assertion that 29 employees spent a portion of their time working on CDLIS or CDLIS-related programs but did not charge time to CDLIS cost centers, we analyzed a nonstatistical sample of the timecards for the 29 employees, covering 8 pay periods during the 3-year period under review. We reviewed the employees’ payroll records and found that time charged to CDLIS cost centers and overhead accounts had already been allocated to CDLIS. We computed AAMVA’s overstatement of the additional salaries and applied fringe benefits and overhead for the 3-year period. To calculate fringe benefits and overhead applied to the overstated salaries, we used the rates identified in AAMVA’s audited financial statements.
# EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT

The following individuals contributed to this report.

<table>
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<th>Name</th>
<th>Title</th>
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APPENDIX. FMCSA COMMENTS

Memorandum

U.S. Department of Transportation

Federal Motor Carrier Safety Administration

Subject: INFORMATION: Response to Office of Inspector General's Report on Use of Income from the CDLIS for modernization

Date: JUN 20 2008

From: John H. Hill
Administrator

To: Joseph W. Come
Assistant Inspector General for Highway and Transit Audits

Thank you for your memorandum of May 20 transmitting the Office of Inspector General's (OIG) report titled "Use of Income Derived from the Commercial Driver's License Information System for Modernization." We have reviewed the report and are pleased to advise that the Federal Motor Carrier Safety Administration (FMCSA) has initiated implementation of both recommendations included in the report.

As referenced in the draft report, the FMCSA and the American Association of Motor Vehicle Administrators (AAMVA) are working cooperatively to modernize the Commercial Driver’s License Information System (CDLIS) to improve system effectiveness, address known limitations, and prepare the system to accommodate future growth and new requirements.

Section 4123 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) authorized the modernization of CDLIS, which includes adding additional security features, upgrading the communications network, integrating medical certificate information, improving self-auditing capabilities, and providing for the electronic exchange of expanded information needs. This law included an authorization of $28 million in grants for fiscal years (FY) 2006 through 2009 for this purpose. The FY 2006 and FY 2007 funding of $5 million and $7 million was awarded to AAMVA for development costs. The FY 2008 funding of $8 million will be awarded to the States. The States and AAMVA are expected to share the $8 million funding in FY 2009.

Concurrently, FMCSA and AAMVA have developed and entered into a new CDLIS Operation, Management, Administration, and Modernization Cooperative Agreement to reflect current programs, systems, and organizational changes since the original agreement was ratified. The original agreement designating AAMVA as the operator of CDLIS was executed on December 21, 1988, and signed by representatives from the Federal Highway Administration (FHWA), AAMVA, and AAMVA.net, Inc., a former affiliate of AAMVA. Since AAMVA.net, Inc.
longer exists and FHWA's CDLIS responsibilities have been transferred to FMCSA, a new agreement was needed.

The recommendations offered by the GIG have enabled us to build upon our accomplishments and forge new working relationships and a new operating agreement that is consistent with FMCSA's and AAMVA's stewardship and oversight responsibilities of CDLIS.

**Responses to Specific Recommendations Recommendation 1.** Amend the 1988 operating agreement to ensure that AAMVA:

a. Uses CDLIS program income in accordance with the common rule.

b. Makes provisions for a reserve fund or other funding vehicle for States to pay for future CDLIS enhancements.

**Response:** The new CDLIS Operation, Management, Administration, and Modernization Cooperative Agreement agreed to, and signed on June 9, 2008, by both parties provides very prescriptive requirements on AAMVA's use of revenue derived from the operation of CDLIS. The agreement defines CDLIS modernization program income as income earned by the AAMVA beginning on the first day of the first month during which the new modernized CDLIS central site is operational and continuing thereafter, as long as AAMVA is the FMCSA's designated operator of CDLIS. Consistent with the common provisions, AAMVA will retain program income to further fund eligible project or program objectives and requirements. The agreement also provides that AAMVA retain a portion of program income to fund future modernization efforts without funding from the FMCSA, to include all eligible activities associated with the following functions:

a. Maintaining the network, hardware, and software needed for the sending and receiving of messages including the additional information required by SAFETEALU, between the CDLIS Central Site and all of the jurisdictions;
b. Providing assistance to States when problems occur with messages between States;
c. Maintaining a problem reporting system to track known problems and the resolution of the problem;
d. Providing updated information on problems to the FMCSA quarterly;
e. Creating Structured Tests (A basic test, and specific tests as may be required by program and system changes);
f. Performing Structured Testing with States (The basic test is to be performed at least once every 3 years. The basic test will be included with the specific tests, if it has been over 2 years since a State completed the basic testing);
g. Maintaining documentation: State Procedures Manual, AAMVA Code Dictionary (ACD) Manual (uniform conviction and withdrawal codes), CDLIS System Specifications (or other documents that are created to support CDLIS), and Unified Network Interface (UNI) documentation as it applies to CDLIS;
i. Providing training on UNI documentation as it applies to CDLIS;
J. Maintain the CDLIS Central Site in accordance with Federal Security Standards; and
k. Retaining a portion of program income to establish a fund designated for future modernization efforts.

In advance of the development and implementation of the modernized CDLIS, the agreement also requires AAMVA to use any program income from CDLIS to fund eligible activities associated with the operation and maintenance of existing CDLIS.

**Recommendation 2.** Ensure that AAMVA accounts for and periodically reports to FMCSA on the amount and use of CDLIS program income during the modernization projects period retroactive to August 2006.

**Response:** The new agreement requires that AAMVA provide a financial report within 6 months of the execution of the agreement regarding the total revenues and expenditures of program income by AAMVA since August 31, 2006 to June 30, 2008. Thereafter, AAMVA will provide a quarterly financial report to FMCSA regarding the total revenues and expenditures of the program income by AAMVA on eligible activities as described in the agreement. Each report shall be due no later than sixty calendar days of the last day of the quarter. In addition, AAMVA will provide audited financial report for each Federal fiscal year no later than January 31st of the following fiscal year.

We appreciate the work done by the OIG and the professionalism demonstrated by the audit team. Please contact Mr. William A. Quade, Associate Administrator, Office of Enforcement and Program Delivery, if you have any questions about the CDLIS modernization effort or the agreement.

APPENDIX. FMCSA COMMENTS