September 21, 2023

Lindsey Perry, CPA, CFE
Auditor General
2910 N 44th Street, Suite 410
Phoenix, Arizona 85018-7571

Subject: ADOT Sunset Review Report

Dear Ms. Perry:

Attached is the Arizona Department of Transportation's response to the ADOT Sunset Review Report. We appreciate working in a comprehensive fashion with the Auditor General and your staff, and having the opportunity to respond to recommendations in the report. We are confident the steps outlined in department responses below will help our operations. ADOT embraces a culture of continuous improvement and will explore opportunities to review and improve processes on an ongoing basis.

If you have any additional questions, please do not hesitate to contact my office.

Sincerely,

Jennifer Toth
Director

Attachment

Finding 1: Department failed to fully address fraud and security incidents, which resulted in it potentially not notifying affected customers, not recovering $198,358 of public monies, and possibly hampering authorities' response

Recommendation 1: The Department should follow its policies and procedures to comply with State laws related to security incidents, including investigating security incidents and timely notifying all affected customers if it determines that a security breach occurred.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will follow its policy for investigating and reporting security incidents by developing procedures that clearly designate the steps required to comply with timely assessment and notification requirements. In addition, we will train staff regarding incident response and reporting requirements. We plan to complete procedure development and training implementation by October 31, 2023.

Recommendation 2: The Department should conduct a risk-based review of MVD system customer account data from 2019 through 2022 to determine whether any other customer accounts exhibit similar potentially fraudulent patterns and conduct all related investigations and required followup.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department regularly checks for patterns of fraud. The Department will review customer accounts during the 2019-2022 time period for patterns of activity that could indicate fraud and complete any required followup based on the results of those reviews.

Recommendation 3: The Department should at a minimum, comprehensively review and investigate the identified 260 customer accounts to determine if potential security incidents occurred. If it identifies security incidents after reviewing and investigating the 260 customer accounts, the Department should report to and work with the Arizona Department of Homeland Security to address these incidents.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department has completed a review of all 260 accounts and referred any accounts requiring further investigation to the Department's Chief Information Security Officer. If security incidents are identified, they will be reported to the Arizona Department of Homeland Security.

Recommendation 4: The Department should develop and implement policies and procedures for timely and effective reporting of fraud to appropriate authorities, as required by the SAAM.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department is developing its policies and procedures regarding timely reporting of fraud. The Department's Audit & Analysis team will immediately begin acting as the central reporting unit for fraud, to ensure the proper reporting and follow-up required under SAAM 0530 - Fraud, Theft, Waste and Abuse.

Recommendation 5: The Department should continue its efforts to recover all monies it had not recovered.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will continue to follow its collections process to recover these funds.

Recommendation 6: The Department should establish a documented, comprehensive process to effectively manage MVD fraud risk, including conducting regular fraud risk assessments, identifying risk responses and anti-fraud strategies, designing and implementing specific control activities to prevent and detect fraud, and monitoring and evaluating its fraud risk management process.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department is reviewing the American Association of Motor Vehicle Administrators' (AAMVA) best practices related to fraud and fraud risk. The Department will then implement a comprehensive process to effectively manage fraud risk, including regular fraud risk assessments, identifying risk responses and anti-fraud strategies, designing and implementing specific control activities to prevent and detect fraud, and monitoring and evaluating its fraud risk management process.

The Department meets on a monthly basis to review fraud trends and risk and regularly participates in recurring national fraud discussions organized by AAMVA. The Department is continually evaluating additional resources and technologies to enhance fraud detection and remediation.

Recommendation 7: The Department should establish a documented and comprehensive IT risk assessment process that involves members of the Department's administration and Information Technology Group for its MVD system and that includes:

Recommendation 7a: Determining the IT risks that MVD faces as it seeks to achieve its objectives.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: MVD and the Information Technology Group (ITG) are collaborating to improve MVD's IT risk management process by working with

independent experts to ensure risk is appropriately identified, assessed, and monitored. As part of this process, the Department will conduct ongoing risk impact analysis for the MVD system.

Recommendation 7b: Providing the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which MVD might be subjected.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: MVD and ITG are collaborating to improve MVD's IT risk management process by working with independent experts to ensure risk is appropriately identified, assessed, and monitored. As part of this process, the Department will conduct ongoing risk impact analysis for the MVD system.

Recommendation 7c: Analyzing identified risks and developing a plan to respond within the context of the MVD's defined objectives and risk tolerances, including the risk of unauthorized access and use, modification, or loss of sensitive information.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: MVD and ITG are collaborating to improve its IT risk management process by working with independent experts to ensure risk is appropriately identified, assessed, and monitored. As part of this process, the Department will conduct ongoing risk impact analysis for the MVD system.

Sunset Factor 2: The extent to which the Department has met its statutory objective and purpose and the efficiency with which it has operated.

Recommendation 8: The Department should comply with statutory requirements related to the Board's public hearing for the Construction Program and the Construction Program's structure. If the Department believes that changes to these statutory requirements are needed, it should work with the Legislature to modify statute.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department may evaluate a legislative change to the statute and in the meantime will comply.

Recommendation 9: The Department should continue to develop and implement a cost-estimation tool to standardize transportation project cost estimates, including accounting for inflation in the cost estimates. Once implemented, the Department should conduct an analysis to determine whether its cost estimates are more accurate and make any necessary changes to its cost-estimation tool, as appropriate.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: A cost estimation tool that includes inflation factors is being developed with implementation anticipated in quarter 1 of calendar year 2024. All costs developed with the tool will be further analyzed for accuracy.

Recommendation 10: The Department should develop and implement a documented stakeholder education process for obtaining and providing information related to transportation projects the Legislature directs it to conduct to enhance transparency and communication related to these projects, including:

Recommendation 10a: Providing stakeholder education about the type of information it considers necessary to scope a transportation project and the type of information it can provide to stakeholders, including information related to project costs.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will work with local public agencies to provide a workshop in 2024 on topics including project scoping and cost estimating for projects on the ADOT system. In addition, the Department will continue working with local public agencies on the Planning 2 Programming process and include announcing project nominations to the Legislature.

If the Department is provided information on Legislative appropriations for ADOT transportation projects, the Department will also reach out to legislative members to discuss the intended scope and budget of the projects.

Recommendation 10b: Expanding its reporting to the Legislature to periodically provide the Legislature with information about all legislative appropriations for specific transportation purposes, including appropriations without a legally mandated reporting requirement. Information that the Department could provide includes information on appropriations and associated transportation projects such as legislative and updated scopes and budgets, statuses, monies spent, and estimated completion dates.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: While the Department is unable to report on the status of projects that it doesn't administer (local projects off the ADOT system), the Department will expand its reporting to include the status of all project appropriations.

Recommendation 11: The Department should develop and implement a process to seek legislative input on potential transportation projects, such as through its P2P process initial request for project proposals and stakeholder meetings.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will include announcing project nominations for the Planning 2 Programming process to the Legislature. In addition, the public,

stakeholders and the Legislature are provided an opportunity to be heard through the public comment process provided in the development of the five-year program.

Recommendation 12: The Department should develop and implement an IT contingency plan that contains all required elements to ensure compliance with State IT requirements, including procedures for recovering and restoring its MVD MAX system.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: MVD IT Systems are hosted in Microsoft Azure and utilize Azure disaster recovery solutions with automatic failover service center locations in other regions. The Microsoft Azure Government Cloud environment is independently certified to be National Institute of Standards and Technology (NIST) and FedRamp compliant. The Department will develop a plan by the end of 2023 to map its implementation to State Department of Homeland Security requirements, determine what may still need to be done to be fully compliant, make necessary enhancements, and ensure that all procedures are documented.

Recommendation 13: The Department should develop and implement documented processes to address identified MVD MAX access control gaps, including monitoring users for inactivity and restricting employees from accessing their own MVD records.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: MVD monitors and logs access and activity and has created reports to flag agents accessing their own account and will implement a regular compliance review process for those reports. MVD will also create and implement a periodic access control review process by October 1, 2023. The review will include a validation of all users current access levels.

Recommendation 14: The Department should train staff who use purchasing cards, travel cards, and central travel accounts and supervisory staff responsible for reviewing related transactions to ensure that these transactions comply with the SAAM and Department policies and procedures.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department updated its FIN 6.12 - Purchasing Card policy (published in May 2023) and FIN 6.11 - Ghost Card policy (published in August 2023) to clarify that card packets must be signed by the employee and their manager/supervisor. Additionally, the Department's Accounts Payable team's standard work was updated to require that the cardholder fix and resubmit a card packet that is lacking signatures.

The Department has updated its FIN 6.11 - Ghost Card policy (published in August 2023) to require that the cardholder "retains the itinerary provided by the airline and documentation support for the pre-approved out-of-state travel request from the Eforms

system. This backup is submitted with the statement."

Personal Use of Employee Travel Card (ETC) transactions were identified prior to the Sunset Review, and based on ADOT standard work to review employee travel card transactions each month, these issues were resolved including some cards being canceled.

Below are the details of the Department's proposed training requirements:
- ADOT Purchasing Card policy (FIN 6.12) - Requires that all P-card holders and their managers take an annual Purchasing Card Training course (GEN1215) - implemented in May 2023.
- ADOT Ghost Card policy (FIN 6.11) - Requires that all applicants of a Central Travel Account (AKA ghost card) take the GAO Travel Policy Training course (TRVPOL) before their application will be approved - implemented in August 2023. Further, existing card holders will be required to complete refresher training by the beginning of FY 25.
- ADOT State Employee Travel Card policy (FIN 6.10) - will be updated and implemented by October 1, 2023 to require GAO Travel Policy Training course (TRVPOL) and Travel Reimbursement Training (GEN1218W) for applicants of an ETC, before their application will be approved. Further, existing card holders will be required to complete refresher training by the beginning of FY 25.
- The Department will prepare and conduct a supplementary P-card and Ghost Card training for cardholders by October 1, 2023, that will focus on common errors made.

Sunset Factor 3: The extent to which the Department serves the entire State rather than specific interests.

Recommendation 15: The Department should continue finalizing the MVD field office location analysis report and develop and implement a plan for addressing the report's findings and proposals.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: MVD's field office location analysis report was originally created in 2017 and has been periodically updated in the years since. In 2022 and 2023, the division undertook a comprehensive revision, and identified areas of the state that are underserved. The Department will continue to keep this living document up to date and work across divisions to develop requests for additional resources and locations to be included in future agency budget requests and capital improvement plans. In addition to expanding its footprint of traditional MVD offices, the division is using TeleMVD to provide services in rural and underserved locations.

Recommendation 16: The Department should implement its conflict-of-interest policy to help ensure compliance with State conflict-of-interest requirements and recommended practices by:

Recommendation 16a: Requiring employees/public officers to annually complete a disclosure form, including attesting that no conflicts exist, if applicable.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department is in the process of overhauling its evaluation and documentation of employee conflicts of interest to align with the Department's policy. The Department is currently engaging in process mapping to determine the appropriate steps in the process to ensure the policy is followed. The process mapping will be complete by the end of 2023.

Recommendation 16b: Storing all substantial interest disclosures in a special file available for public inspection.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department currently stores these disclosures, but they are not available in a single location. If a member of the public wished to inspect a substantial interest disclosure, he or she would need to request a specific employee's or public officer's disclosure. The Department will, through its process mapping, determine a single location to store all substantial interest disclosures. This will be complete by the end of 2023.

Recommendation 16c: Providing periodic training on its conflict-of-interest policy to all employees and public officers.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department currently provides training on conflicts of interest to new employees as part of its onboarding process. The Department will develop ongoing training specific to conflicts of interest and require employees and public officers to complete the training every three years.

Sunset Factor 5: The extent to which the Department has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

Recommendation 17: The Department should comply with open meeting law requirements, including:

Recommendation 17a: Ensuring Board and Committee meeting notices are posted at least 24 hours in advance in all locations identified in their disclosure statements.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department has a process in place and will continue to comply with the requirement.

Recommendation 17b: Ensuring minutes or recordings are available upon request within 3 working days of Board and Committee meetings.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: We will develop a process to post recordings to the internet within 3 working days for easy access.

Recommendation 18: The Department should develop and implement open meeting law policies and procedures to help ensure its compliance with open meeting law requirements.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: We will develop a department wide policy related to open meeting law requirements and ensure it is distributed to all employees.

Sunset Factor 6: The extent to which the Department has been able to investigate and resolve complaints that are within its jurisdiction and the ability of the Department to timely investigate and resolve complaints within its jurisdiction.

Recommendation 19: The Department should implement its MVD procedures for tracking customer complaints against third parties, including complaint resolutions.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: MVD has implemented a tracking process for customer complaints against third parties, including confirmation of the date resolved, in order to monitor timely resolution. MVD will formally document the process by October 1, 2023.