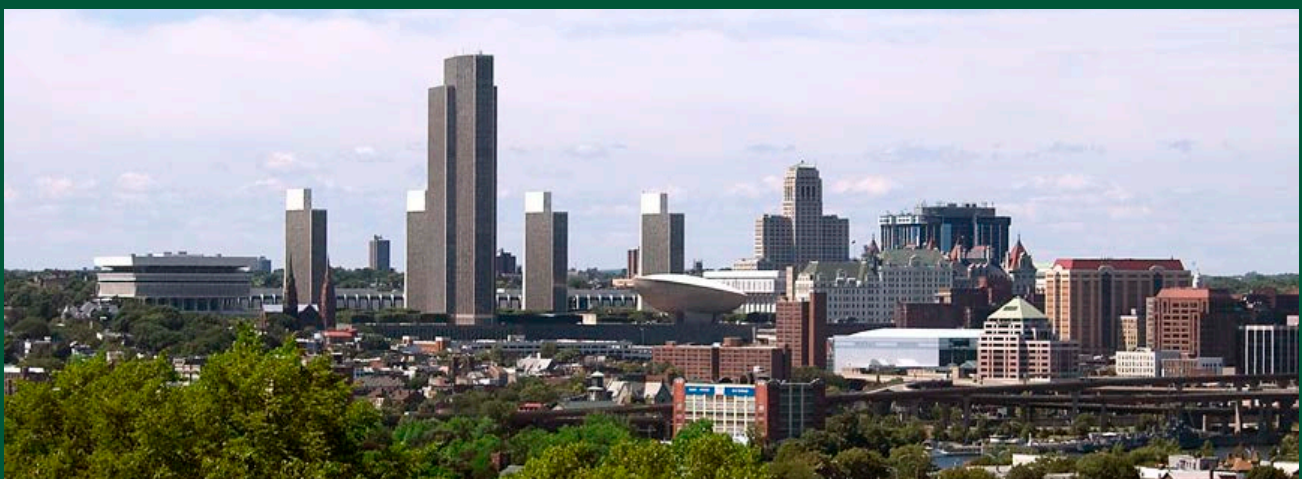


**New York State Office of the State Comptroller**  
Thomas P. DiNapoli

Division of State Government Accountability

# **Motor Vehicle Financial Security and Safety Responsibility Acts: Assessable Expenses for the Two Fiscal Years Ended March 31, 2013**

## **Department of Motor Vehicles**



Report 2014-S-42

March 2015

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## Executive Summary

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### Purpose

The purpose of our performance audit was to determine whether the Department of Motor Vehicles (Department) has adequate procedures in place to accurately report its assessable expenses incurred in connection with the administration of Article VI and Article VII of the Vehicle and Traffic Law. We performed our audit pursuant to legislative mandates included in these statutes, which direct that the Comptroller and the Commissioner of Motor Vehicles ascertain the annual amount of expenses incurred in the administration of these laws. Our audit covered the period April 1, 2011 through March 31, 2013.

### Background

The Department administers the Motor Vehicle Financial Security Act (Security Act) and the Motor Vehicle Safety Responsibility Act (Responsibility Act). These Acts help ensure that the operators of motor vehicles driven in New York State possess adequate insurance coverage, or are financially secure, to compensate those persons they might injure or whose property they might damage as a result of an accident. According to Article VI, Section 317 and Article VII, Section 363 of the Vehicle and Traffic Law, the Department is responsible for tracking its cost of administering these Acts, and assessing these costs on insurance carriers that issue policies or contracts of automotive bodily injury insurance.

### Key Findings

- For the fiscal years ended March 31, 2012 and March 31, 2013, net assessable expenses for the Acts totaled about \$20.3 million and \$18.9 million, respectively. The Department is reporting its assessable expenses accurately.
- The Department lacks written policies and procedures for identifying which expenses are assessable.

### Key Recommendation

- Develop written policies and procedures for identifying assessable expenditures.

### Other Related Audits/Reports of Interest

[Department of Motor Vehicles: Motor Vehicle Financial Security and Safety Responsibility Acts: Statement of Assessable Expenses for the Three Fiscal Years Ended March 31, 2011 \(2012-S-25\)](#)  
[State Education Department: Audit of the Tuition Reimbursement Account for the Three Fiscal Years Ended March 31, 2013 \(2014-S-17\)](#)

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**State of New York  
Office of the State Comptroller**

**Division of State Government Accountability**

March 19, 2015

Mr. J. David Sampson  
Executive Deputy Commissioner  
Department of Motor Vehicles  
6 Empire State Plaza  
Albany, NY 12228

Dear Mr. Sampson:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Motor Vehicle Financial Security and Safety Responsibility Acts: Assessable Expenses for the Two Fiscal Years Ended March 31, 2013*. This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and the legislative mandates included in Article VI, Section 317 and Article VII, Section 363 of the Vehicle and Traffic Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller  
Division of State Government Accountability*

## Table of Contents

Background	4
Audit Findings and Recommendation	5
Preparation of Statements of Assessable Expenses	5
Recommendations	5
Audit Scope and Methodology	6
Authority	6
Reporting Requirements	7
Contributors to This Report	8
Exhibit A	9
Exhibit B	10
Agency Comments	11

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This report is also available on our website at: [www.osc.state.ny.us](http://www.osc.state.ny.us)

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## Background

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The Department administers the Motor Vehicle Financial Security Act (Security Act) and the Motor Vehicle Safety Responsibility Act (Responsibility Act) pursuant to Article VI and Article VII of the Vehicle and Traffic Law. These Acts help ensure that operators of motor vehicles registered in the State have adequate insurance coverage, or are financially secure, to compensate persons they might injure or whose property they might damage in an accident. Department activities relating to the Security Act are segregated into two program areas: the Dedicated Bridge and Highway Safety Program and the Compulsory Insurance Services Program.

The Dedicated Bridge and Highway Safety Program is responsible for enhancing transportation safety through the licensing, education, and oversight of vehicle operators and businesses involved in the selling, repair, and inspection of motor vehicles. Included in this program are partial allocations of costs related to the Department's Administration and Operations functions. Administration functions include the Commissioner's Office, the Communication Office, Fiscal Management, Human Resources, Program Analysis, and Information Technology. Operations functions include the regional offices and customer service functions such as issuing licenses, registrations, and permits; administering vision and driving examinations; and verifying title and insurance status.

The Compulsory Insurance Services Program includes ensuring vehicle owner compliance with mandated liability insurance coverage for registered vehicles. This program maintains a vehicle information database to confirm registered vehicles have mandated insurance coverage. The Compulsory Insurance Services Program also includes the Internet Point and Insurance Reduction Program, which grants point and insurance reduction benefits to those who take a defensive driving course. In 2005, the Legislature enacted a law creating a pilot for an Internet/Alternate Delivery Method Point and Insurance Reduction Program to test the effectiveness of electronic course delivery. Courses may be delivered via the Internet or other methods such as DVD or digital cable. The legislation provides for a per student fee to support a third-party monitor to help ensure that only people completing this program receive the benefits.

The Responsibility and Security Acts each stipulate that the Department and the Office of the State Comptroller shall ascertain the total amount of expenses to administer these laws. Assessable expenses include costs for personal service, maintenance and operations, retirement contributions, workers' compensation premiums, real estate rent, and other direct and indirect costs. Fees paid by self-insurers and for bonded vehicles under Article VI, Section 316 and Article VII, Section 370 of the Law are used to reduce the assessment.

Each year, the Department estimates the cost to implement these programs and assesses this amount on insurance carriers in proportion to their premiums for policies or contracts of certain automobile bodily injury insurance premiums. The Department generally bills the carriers quarterly. At year end, the Department determines the actual expenses and issues either a final bill or a refund to the carriers to ensure they paid the amount they owed. The Department prepares the year-end Statements of Assessable Expenses on the cash basis of accounting. Consequently, revenues are recognized when received and expenditures are recognized when paid.

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## Audit Findings and Recommendation

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We found that the Department had adequate procedures in place to accurately identify and report its assessable expenses for the two years covered by our audit. However, we also noted that the Department does not have written policies and procedures in place to consistently guide the process of identifying assessable expenses in the future, which increases the risk of incomplete or inconsistent reporting should staffing reassignments or other workforce disruptions occur.

### Preparation of Statements of Assessable Expenses

For the fiscal year ended March 31, 2013, net assessable expenses totaled \$18,909,862, and for the year ended March 31, 2012, net assessable expenses totaled \$20,311,836. We found the Department accurately prepared the Statements of Assessable Expenses for those two years, which are presented as Exhibits A and B to this report. Under its current practice, expenses are reviewed and classified by fund and cost center as part of the Department's budget process. In general, expenses that relate directly to the insurance program are included in total, while expenses that relate to both the insurance and non-insurance programs are partially included based on an indirect allocation rate. Charges that are unrelated to the insurance program are excluded entirely. Department officials told us that each year expenses assigned to cost centers used in prior years are compared to the previous years' amounts, after which any significant variations (i.e., changes greater than 5 percent) are reviewed. However, we found the Department did not document this variance review.

We also noted that the Department does not have written policies and procedures in place to guide identification of assessable expenses. Instead, written policies and procedures focus primarily on the process for allocating assessable expenses to the insurance carriers. In recent years, the Department has had turnover in the staff responsible for preparing its Financial Security Assessment. The loss of staff experience and knowledge of the process, combined with the lack of policies and procedures and documentation of past decisions, may increase the time and labor required to complete the assessment and the accompanying Statements of Assessable Expenses. Complete documentation of the process would improve the knowledge transfer to staff in the future and ensure consistency in the assessment's preparation.

### Recommendations

1. Document the assessment variance review.
2. Develop written policies and procedures for identifying assessable expenditures.

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## Audit Scope and Methodology

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We audited whether the Department has adequate procedures in place to accurately report its assessable expenses incurred in connection with the administration of Article VI and Article VII of the Vehicle and Traffic Law. Our audit covered the period April 1, 2011 through March 31, 2013.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. The Comptroller also appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. In addition and more specific to this audit, Article VI, Section 317 and Article VII, Section 363 of the Vehicle and Traffic Law each require the Comptroller and the Commissioner of Motor Vehicles to ascertain the total amount of expenses incurred in the administration of these laws. Ascertaining the expenses requires reliance on the State's accounting system, which is maintained in part by the Comptroller. These duties may therefore be considered management functions for purposes of evaluating threats to organizational independence under generally accepted government auditing standards. Because the focus of our performance audit was on the Department's efforts to capture and report appropriate costs, and not on calculating the costs themselves, in our opinion these threats and functions do not affect our ability to conduct an independent audit of the Department's performance.

To achieve our audit objective, we reviewed relevant laws, policies, and procedures and interviewed Department officials. We also examined the Department's internal controls related to preparing the appropriate cost reports. We applied specific audit procedures to the annual assessment statements prepared by the Department. These audit procedures included analytical reviews to identify areas of risk and unique transactions that warrant additional consideration, as well as tests of selected transactions and such other procedures as we considered necessary in the circumstances. We also substantiated the assessable costs presented in these statements by tracing them to financial records maintained by the Department and by the State Comptroller.

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## Authority

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The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and the legislative mandates included in Article VI, Section 317 and Article VII, Section 363 of the Vehicle and Traffic Law.

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## Reporting Requirements

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We provided a draft version of this report to Department officials for their review and comment. Officials agreed with our recommendations and reported that steps have already been taken to implement each one. The Department's response is attached in its entirety at the end of this report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Motor Vehicles shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.



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## Contributors to This Report

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**John F. Buyce**, CPA, CIA, CFE, CGFM, Audit Director  
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**Michael F. Cantwell**, Examiner-in-Charge  
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### Vision

A team of accountability experts respected for providing information that decision makers value.

### Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

## Exhibit A

**New York State Department of Motor Vehicles  
Motor Vehicle Financial Security and Safety Responsibility Acts  
Statement of Assessable Expenses  
for the Fiscal Year Ended March 31, 2013**

Direct Expenses:	
Internet Point and Insurance Reduction Program	\$13,317
Compulsory Insurance Services	6,456,715
Dedicated Bridge and Highway Program	7,339,587
<b>Total Direct Expenses</b>	<b>\$13,809,619</b>
Fringe Benefits and Indirect Costs	5,214,501
<b>Gross Assessable Expenses</b>	<b>\$19,024,120</b>
Less:	
Fees Paid by Self-Insurers	(110,784)
Fees Paid for Bonded Vehicles	(3,474)
<b>Net Assessable Expenses</b>	<b>\$18,909,862</b>

## Exhibit B

**New York State Department of Motor Vehicles  
Motor Vehicle Financial Security and Safety Responsibility Acts  
Statement of Assessable Expenses  
for the Fiscal Year Ended March 31, 2012**

Direct Expenses:	
Internet Point and Insurance Reduction Program	\$14,109
Compulsory Insurance Services	8,052,788
Dedicated Bridge and Highway Program	6,768,031
<b>Total Direct Expenses</b>	<b>\$14,834,928</b>
Fringe Benefits and Indirect Costs	5,596,242
<b>Gross Assessable Expenses</b>	<b>\$20,431,170</b>
Less:	
Fees Paid by Self-Insurers	(115,799)
Fees Paid for Bonded Vehicles	(3,535)
<b>Net Assessable Expenses</b>	<b>\$20,311,836</b>

# Agency Comments

J. DAVID SAMPSON  
Executive Deputy Commissioner



(518) 474-0846

March 11, 2015

Mr. John Buyce, Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

Re: 2014-S-42 Draft Audit Report

Dear Mr. Buyce:

This letter is in reference to the New York State Comptroller's draft audit findings which address the Motor Vehicle Financial Security and Safety Responsibility Acts: Assessable Expenses for the Two Fiscal Years Ended March 31, 2013.

Please note the following concerning the audit recommendations:

1. Document the assessment variance review.

*Response: The Department has developed procedures to ensure the assessment variance review is documented.*

2. Develop written policies and procedures for identifying assessable expenditures.

*Response: The Department has developed written policies and procedures for identifying assessable expenditures to improve the knowledge transfer to staff and ensure consistency in assessment preparation.*

We will continue to look for improvement opportunities such as these and always welcome a chance to better serve the citizens of this State. If you have any questions concerning this matter, please contact me at (518) 474-0846.

Sincerely,

J. David Sampson  
Executive Deputy Commissioner

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