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OFFICE OF THE STATE COMPTROLLER

July 19, 2006

Ms. Nancy A. Naples
Commissioner
New York State Department of Motor Vehicles
6 Empire State Plaza
Albany, New York 12228

Re: Report 2005-F-28

Dear Ms. Naples:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the Department of Motor Vehicles (Department) to implement the recommendations contained in our audit report, *Implementation of Insurance Information and Enforcement System* (Report 2001-S-61).

Background, Scope and Objective

To help the Department, the insurance industry, and the law enforcement community identify uninsured vehicles, the State Legislature passed Chapter 678 of the Laws of 1997 and Chapter 509 of the Laws of 1998 to amend Section 313 of the Vehicle and Traffic Law (VTL). These amendments required the Department to establish a pilot program that would create and maintain an up-to-date insured vehicle-identification database. They also required the Department to develop a computer indicator that could be imprinted on a vehicle's registration sticker or on a sticker to be affixed to the vehicle's license plate, enabling law enforcement personnel and other authorized persons to access the Department's database and determine if vehicles are insured.

In March 1998, the Department issued a Request for Proposal soliciting computer-related consulting services to design and implement upgrades and enhancements for its financial security program. The purpose of the project was to integrate Insurance Information and Enforcement System (IIES) data with those in other Department systems. Subsequently, the Department entered into a contract for \$4.5 million to complete the IIES database, including general system design for IIES as well as a plan that would provide detailed specifications and requirements for both programming and system implementation and operation. The contract also called for development of an Electronic Data Interchange (EDI) prototype for electronic reporting of insurance transactions by insurance companies. Additional contract modifications and enhancements brought the total value of the contract to \$6.3 million.

Section 317-3(d) of the VTL provides funding for a pilot database system and bar code program. One source of revenue the legislation authorized was for the Commissioner to fund the pilot and bar code projects with 25 percent of all civil penalties imposed upon persons fined pursuant to section 318 of the VTL. This section of the law allows motorists who had their driver's license and registration suspended for lack of insurance or lapsed insurance to terminate the order of suspension by surrendering their plates or submitting proof of insurance coverage within 90 days and paying a civil penalty of \$8 for each day insurance coverage was not in effect. As a means to fund the pilot program, the legislation increased the civil penalty from \$6 to \$8, of which \$6 is to be deposited into the general fund and \$2 into the miscellaneous special revenue fund-compulsory insurance account. An ancillary goal of the IIES program was to reduce the costs assessed on the insurance industry by the Department.

The Department implemented IIES in June 2000. Developed from valid license plate records and active insurance activities noted in the registration and license files, it contains the most current and complete insurance information the Department has on a vehicle, including insurance cancellations, new business, inquiries, and insurance verifications. Insurance-related suspension and revocation information now appear on both the Department's registration and license files and IIES. According to Department officials, IIES receives data on between 40,000 and 50,000 vehicle-related transactions a day.

Our initial audit report, which was issued on April 2, 2004, examined the Department's IIES operations for the period of June 1, 1998, through November 30, 2002. Our report found that the IIES was implemented in accordance with the requirements contained in the contract. We further determined that the processes used for loading vehicle insurance data into IIES when it first began to operate and for updating IIES data on an ongoing basis were both generally effective. We also found that a low proportion (4 percent) of the transactions initially entered by insurance companies were late. However, we found certain improvements were needed if the potential benefits of the system are to be fully realized. For example, a relatively-high proportion (46 percent) of subsequent updates sampled at district offices did not meet the Department's timeliness standards. We also found the Department did not always notify the State Insurance Department (SID) when insurance companies did not comply with reporting standards regarding new insurance policy transactions. Consequently, these companies were not subject to any enforcement action. The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of June 12, 2006 of the nine recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found Department officials have made some progress in addressing the problems identified. Of the nine prior recommendations, three recommendations have been implemented, four have been partially implemented and two have not been implemented.

Follow-up Observations

Recommendation 1

Continue to work with the State Insurance Department to develop standards for enforcement actions, including fines for insurance companies that do not comply with reporting-timeliness standards. Monitor insurance company compliance and report non-compliance conditions to SID for enforcement.

Status - Partially Implemented

Agency Action - Department officials told us their main emphasis is on handling compliance through education and training. They added they developed weekly and quarterly reports to monitor a company's filing performance and provide detailed information to help assist in identifying specific problem areas. The Department hired several consultants to code the reports and test data. Department officials provided us with a copy of the report formats. The new reports were test piloted and the Department anticipates the new reports will be implemented industry-wide later this year once needed changes identified during the test pilot are made. Once implemented, the results will be analyzed and they will address compliance problems and determine if assistance is needed from the SID. Department officials told us SID has assured them it is willing to help with any compliance problems. Specific sanctions and fines for non-compliance have not yet been developed.

Recommendation 2

Take additional steps to inform law enforcement agencies of the 2-D bar coding and the registration bar coding systems, their potential advantages and disadvantages, and available grant funds, and demonstrations that show how the systems are used.

Status - Implemented

Agency Action - Department officials told us they have worked with law enforcement and the insurance industry to provide information on bar coding and a new technology for license plate scanning that compares plates to a download from the Department similar to the 2-D Bar code scanning technology. They made three formal presentations that addressed bar code technology and provided us with the information presented at one seminar including the New York Anti Car Theft and Fraud Association, the New York Chapter of Special Investigation Units, and the New York Automobile Insurance Plan. Officials told us that the plate scanners are used by the Department, the Division of State Police, the New York City Police Department, and possibly other forces. A review of the documentation for the presentation in June 2005 shows that the bar code and plate scanning technology were covered.

Recommendation 3

Use excess civil penalties collected to fund expenses incurred to carry out work done under Article 6 such as administration of the IIES, including expansion of the bar coding systems by law enforcement agencies.

Status - Not Implemented

Agency Action - Department officials told us the Legislature has included in the budget bills the transfer of excess penalty fees to the General Fund. The Department's Counsel has stated the Department can only use these funds to the extent and for the purposes they are allocated to the Department by the Division of the Budget (DOB) and that DOB can only allocate funds consistent with and pursuant to legislative appropriations. However, our legal opinion concludes the Department could use the funds for certain IIES purposes.

Recommendation 4

Recommendation 5

Status - Partially Implemented

Agency Action - Recommendations 4 and 5 and the detailed agency action for them are not included here due to the sensitivity of the information and potential risk associated with such information. However, during our follow up we determined that the recommendations were partially implemented.

Recommendation 6

Improve IIES performance monitoring by:

- *Modifying the IIES performance reports to provide accurate, relevant information that will help management determine which insurance companies are not in compliance so that corrective actions can be taken; and*
- *Establishing formal procedures for monitoring IIES performance reports, including benchmarks.*

Status - Partially Implemented

Agency Action - As described under recommendation 1, the Department is in the process of implementing new reports to monitor insurance company filing performance. Officials told us the new reports and one of the existing reports will be used to monitor industry compliance against the seven days in the law. They will also monitor trends to evaluate performance.

Recommendation 7

Establish standard reports to track measures of outcomes against uninsured motorists including benchmarks.

Status - Implemented

Agency Action - Department officials track 40 different statistics and outcome measures pertaining to the Insurance Program, on a weekly report referred to as the Metrics Report. The Metrics Report identifies the number of vehicles suspended for lack of insurance that have not been resolved after initial efforts. This report represents a snapshot of the number of uninsured vehicles at the time of the report, some of which may be resolved in the future. As of January 8, 2006, the report showed 11,175 uninsured vehicles.

Recommendation 8

Address the concerns and suggestions of insurance company representatives regarding IIES, and use them as guidelines for further improvements to IIES.

Status - Implemented

Agency Action - The Department has taken a number of steps to address the concerns and suggestions of insurance company representatives to make improvements to the IIES program. For example, the insurance industry suggestions included quicker handling of faxes and help line calls, a Department contact person for each insurer, and insurance records should be available online to assist insurers in correcting problems. The Department has an Outreach and Correspondence Team that responds to inquiries from both insurers and registrants with insurance problems. The Department monitors call and fax handling times and provided us with reports showing that calls are being handled in less than two minutes. Officials told us that faxes are routinely answered within 24 hours. Each insurance company was required to provide two contacts (primary and secondary) to the Department when IIES was implemented. They are required to notify the Department if the contacts change. Department staff utilizes these contacts when resolving customer or EDI filing issues. The Department also maintains an IIES website and two self-service web based applications (EDITS and an inquiry application) for use by the insurance industry to review insurance transactions and insurance records. The Department also has a Department email for insurers that is monitored by a technical group to respond to questions.

Recommendation 9

Establish a process for recording the complaints referred to SID and the outcome of the complaints, particularly the cause.

Status - Not Implemented

Agency Action - In response to the initial audit, Department officials indicated they advise customers who have complaints about the insurance industry how to resolve their issue and communicate with SID so that SID can take actions it deems necessary. During our follow-up audit, Department officials stated it is their position that it is SID's role to handle consumer complaints as they relate to specific insurance companies, agents or brokers and that the Department does not have the authority to apply sanctions to those entities. However, the Department works with customers to try to resolve their issue by accepting proof of insurance and working with industry contacts to facilitate EDI problems. The Department also stated that SID has a customer complaint function devoted to assisting customers with filing complaints against the insurance industry.

Major contributors to this report were Steve Goss and Michael Tagliaferro.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Department of Motor Vehicles for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Carmen Maldonado
Audit Director

cc: Lisa Ng, Division of the Budget
Edward Wade, Department of Motor Vehicles