

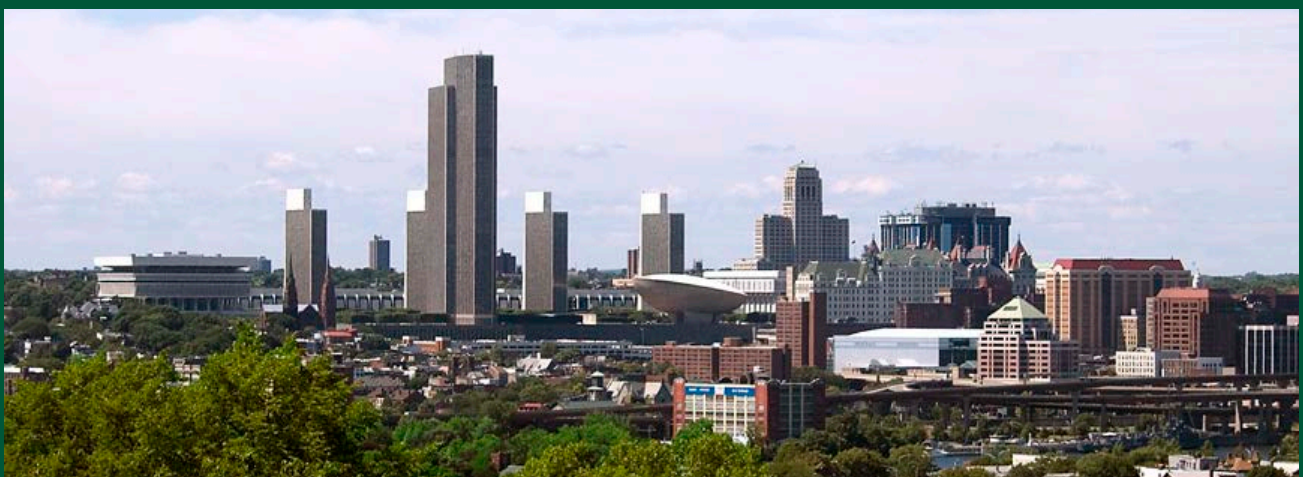


New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Internal Control System Components

Department of Motor Vehicles



Report 2015-S-66

March 2016

Executive Summary

Purpose

To determine whether the Department of Motor Vehicles' (Department) management of its internal control system appropriately addresses all five components of internal control. Our audit scope included the period January 1, 2013 through December 1, 2015.

Background

In 1987, the Legislature passed the New York State Governmental Accountability, Audit and Internal Control Act requiring each State agency to institute a comprehensive system of internal control over its operations. The Division of the Budget's Budget Policy and Reporting Manual Bulletin B-350 requires the head of each covered agency to certify compliance with the Act by April 30 of each year by submitting a Certification and Internal Control Summary describing the internal control activities undertaken during the previous year. As the State's chief fiscal officer, the Comptroller also has several responsibilities under the Act, including providing technical assistance to agencies, conducting audits of internal control, and issuing the Standards for Internal Control in New York State Government (Standards). The Standards form the minimum expectations for internal control in State agencies and public authorities and provide guidance to State officials on establishing and evaluating a comprehensive system of internal controls. Included in that guidance are five specific components of internal control that must be addressed by each system: control environment, control activities, risk assessment, information and communication, and monitoring.

Key Findings

- The Department has established a system of internal control that incorporates each of the five components of internal control. However, improvements are needed in the evaluation of some of these components, particularly at the unit level.
- The Department has developed an internal control review program that requires unit managers to formally assess risks, test controls, and implement corrective action plans. However, the process has not yet been fully or consistently implemented across most units. For example, the Department had not defined control objectives, identified the risks of objectives not being met, nor identified the controls in place to mitigate such risks for 57 of its 163 discrete operating functions.
- Without a complete internal control review program, the Department does not have appropriate assurance that unit managers are properly evaluating risk, testing controls to verify that they are working as intended, and implementing corrective action plans if controls fail.
- The Department does not provide adequate training to unit managers about their internal control responsibilities.

Key Recommendations

- Develop a process and cycle for each unit manager to assess risk and review controls for major functions.
- As a part of the internal control review program, incorporate a process for unit managers to evaluate the control environment, information and communications systems, and monitoring

systems within their units.

- Provide additional training and outreach to unit managers to increase their understanding of internal controls and the internal control review program.

Other Related Audits/Reports of Interest

[Office of Temporary and Disability Assistance: Internal Control System Components \(2015-S-4\)](#)

[Workers' Compensation Board: Internal Control System Components \(2015-S-46\)](#)

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

Division of State Government Accountability

March 17, 2016

Ms. Theresa L. Egan
Executive Deputy Commissioner
Department of Motor Vehicles
6 Empire Plaza
Albany, NY 12228

Dear Executive Deputy Commissioner Egan:

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 of the Department of Motor Vehicles entitled *Internal Control System Components*. This audit was performed according to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance 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*

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Background

Internal control is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission. While the overall purpose of an internal control system is to help an organization achieve its mission, internal control also helps an organization to promote orderly, economical, efficient, and effective operations and produce quality products and services consistent with the organization's mission; safeguard resources against loss due to waste, abuse, mismanagement, errors, and fraud; promote adherence to laws, regulations, contracts, and management directives; develop and maintain reliable financial and management data; and accurately present that data in timely reports.

In 1987, the Legislature passed the New York State Governmental Accountability, Audit and Internal Control Act (Act) requiring each State agency to institute a comprehensive system of internal controls over its operations. The Division of the Budget's (DOB) Budget Policy and Reporting Manual Bulletin B-350 requires the head of each covered agency to certify compliance with the Act by April 30 of each year by submitting a Certification and Internal Control Summary (Certification) describing the internal control activities undertaken during the previous year.

As the State's chief fiscal officer, the Comptroller also has several responsibilities under the Act, including providing technical assistance to agencies and conducting audits of internal controls, and issuing the Standards for Internal Control in New York State Government (Standards). The Standards were developed, in part, from those advocated by leading authorities in the field of internal control, such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the U.S. Government Accountability Office (GAO), and other professional organizations.

Past audits have examined various aspects of internal controls, such as the quality and timeliness of the certifications submitted to DOB. This audit is one of a series that focuses specifically on the management of internal control systems present and operating at State agencies and whether those agencies have appropriately addressed all five components of internal control set forth in the Standards: control environment, control activities, risk assessment, information and communication, and monitoring.

The mission of the Department is to issue secure identity documents, deliver essential motor vehicle and driver-related services, and administer motor vehicle laws enacted to promote safety and protect consumers. During our audit, the Department's internal control system was segregated into 37 units and 163 operating functions.

Audit Findings and Recommendations

The Department has established a system of internal control that incorporates each of the five components of internal control. However, improvements are needed in the evaluation of some of these components. The Department devotes additional time and resources to ensure sufficient controls are in place to minimize what officials view as their greatest risks, which involve protecting revenues, financial account data, and customers' personal information. However, due to the additional resources placed in these areas of risk, the Department's program of internal control review is substantially incomplete. For example, the Department has not defined control objectives, identified the risks of objectives not being met, or identified the controls in place to mitigate such risks for 57 of its 163 discrete functions. Additionally, our inquiries indicate that unit managers need additional training and outreach to help them gain a better overall understanding of internal control and the Department's internal control review program.

Internal Control System Components

The Standards represent the minimum acceptable standards for internal control systems for New York State government organizations. The Standards outline the five components of internal control and how each agency should build their internal control system to incorporate them. The Standards direct agencies on how to manage their internal control systems to ensure that all five components are being addressed and evaluated on a periodic basis.

As a part of the yearly certification, agencies must report their compliance with maintaining a system of internal controls and a program of internal control review. The system of internal controls must incorporate all five components of internal control. The program of internal control review should be a structured, continuing, and well-documented system that is designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions, and periodically assess the adequacy of the agency's internal controls.

The Department has established a system of internal control that incorporates the five components of internal control; however, improvements are needed in the evaluation of these components. The Department's internal control system contains mechanisms to support the five components of internal control. For example, the Department has shown support of internal controls and developed a code of conduct. The Department has also developed policies and procedures, as well as monitoring activities, to help mitigate risks.

The Department also devotes additional time and resources to ensure sufficient controls are in place to minimize what it views as its greatest risks, which involve protecting revenues, financial account data, and customers' personal information. The Internal Control Officer (ICO) is tasked with implementing several projects and initiatives to reduce these risks to the Department. For example, recently a substantial amount of the ICO's time has been spent bringing the Department into compliance with Payment Card Industry Data Security Standards, controlling access rights to the Statewide Financial System, and contributing to the implementation of the LEAN Initiative.

The Department has developed an internal control review program that requires unit managers to formally assess risks, test controls, and implement corrective action plans. However, the process has not yet been fully or consistently implemented across most units. Instead, most attention has been focused on the few high-risk areas discussed previously. Additionally, we found that the internal control review program does not contain a requirement, or recommended process, for managers to evaluate the control environment, information and communications systems, and monitoring systems within their units.

We analyzed internal control review documents prepared between April 1, 2013 and March 31, 2015, and determined that the internal control review program and the evaluation of the internal control system itself were substantially incomplete in several areas, as follows:

- One of the first steps in implementing the minimum requirements related to evaluating the adequacy of the internal control system is to define the objectives of the functions (operating responsibilities) of the agency. We found that 57 of the 163 functions did not contain defined objectives, identify the risks of objectives not being met, or have the controls in place to mitigate those risks. For example, the mission of the Department's Fleet Services function is to maintain State cars to provide safe transportation for staff to carry out their duties in a cost-effective manner. However, the management of this function has not identified the function objectives, the risks associated with those objectives not being met, or the controls in place to mitigate those risks.
- For the remaining 106 (163 – 57) functions that contain 470 identified risks, 338 risks did not contain an assessment by management in terms of impact and likelihood of occurrence. For example, one risk identified for the Department's Clean Air function is that emission inspections may not be completed due to a lack of support. Although management had identified this risk, it did not rate how likely it was to occur nor its potential impact.
- We also identified 142 functions where there was no evidence that controls were tested by the unit managers to ensure they were working as intended. For example, to mitigate the risk of personal information regarding commercial drivers' licenses being improperly disclosed, the Department established controls requiring that personal information not be provided over the phone or Internet and that documents be shredded when no longer needed. However, we found no evidence officials tested these procedures to ensure that staff were appropriately trained in and regularly complied with them.

Department officials acknowledged that their internal control review program is incomplete and stated this was the reason they reported being "partially compliant" on their Certification. Department officials also stated that the reason it is not fully complete is due to the additional tasks the ICO is responsible for managing. However, during our audit period, the Department had not developed a formal plan detailing how it intended to complete the internal control review program and bring the agency into full compliance. Without a complete internal control review program, the Department does not have appropriate assurance that unit managers are properly evaluating risk, testing controls to verify that they are working as intended, and implementing corrective action plans if controls fail.

In responding to our draft audit report, Department officials noted that, in December 2015, they developed an outline of a proposed plan to incorporate our audit recommendations and enable the Department to complete its internal control review program. Department officials also indicated that the ICO had met with senior level managers to evaluate unit functions and to develop a list of major functions requiring a yearly internal control review. In addition, officials stated that they have redesigned the form used by unit managers during their internal control reviews to include sections requiring managers to evaluate their units' control environment, information, communication and monitoring systems.

We also found the Department's Internal Audit Unit undertakes several activities in support of the internal control system. The Internal Audit Unit plans and performs several different types of audits throughout the year, including audits of State and county issuing offices, private sector parties, and traffic violations bureaus. Many of these audits include steps related to internal control such as a review of internal control activities in the office, reconciliation of inventories for secure items, and a review of processed transactions for propriety. Program and global audits include audits of central office program areas and broader scope audits of processes in issuing offices and traffic violations bureaus.

The Department stated that it does not rely solely on the internal control review program to identify and manage risk. The Department's Office of Integrity oversees several divisions that aid in reducing risk throughout the agency. For example, the Division of Field Investigation investigates thousands of fraud cases each year and the Audit Services Office conducts hundreds of on-site audits of internal and external partners annually. We recognize the importance of the Department's other activities to identify and manage risk. However, an essential part of any internal control system is the program of internal control review that provides assurance to the Department that unit managers are properly determining the effectiveness of the system of internal control within their respective operations.

Internal Control Training

Agencies are required to implement education and training efforts to ensure that employees achieve adequate awareness and understanding of internal control standards and evaluation techniques. The Department does not provide adequate training to unit managers on their internal control responsibilities. All employees do complete the required internal control training provided through the Statewide Learning Management System and links to internal control resources are provided on the Department's intranet page. However, unit managers receive no additional training beyond that. In fact, we found no additional or specific courses directed at either unit or executive management.

During our audit we met with five unit managers to discuss their role in the Department's internal control review program. In four out of the five cases, we found no evidence that the managers had performed a formal assessment of risks in their units, no evidence that they had tested the internal controls within their units to ensure they were operating as intended, and no corrective action plans in place to address problems or deficiencies. Further, only one of the five managers was able to clearly demonstrate an understanding of the assessment of the unit's functions. We

concluded that additional outreach and training is necessary to ensure that managers have an adequate understanding of internal control and their role in the system.

Recommendations

1. Develop a process and cycle for each unit manager to assess risk and review controls for major functions.
2. As a part of the internal control review program, incorporate a process for unit managers to evaluate the control environment, information and communications systems, and monitoring systems within their units.
3. Provide additional training and outreach to unit managers to increase their understanding of internal controls and the internal control review program.

Audit Scope, Objective, and Methodology

Our objective of our audit was to determine whether the Department's management of its internal control system appropriately addresses all five components of internal control. Our audit scope included the period January 1, 2013 through December 1, 2015.

To accomplish our objective, we reviewed the Office's 2013-2014 and 2014-2015 internal control Certifications, as well as documentation of risk assessments and self-assessments that the Department used in establishing and evaluating the components of internal control. In addition, we interviewed the Internal Control Coordinator, the Director of Internal Audit, and the unit managers to learn more about their internal control system.

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 objective. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

Reporting Requirements

A draft copy of this report was provided to Department officials for their review and formal comment. Their comments were considered in preparing this final report and are attached in their entirety at the end of the report. Department officials generally agreed with our recommendations and indicated that they have taken steps to implement them. Also, our rejoinder to certain Department comments is included in the report's State Comptroller's Comment.

Within 90 days of the 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.

Contributors to This Report

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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.

Agency Comments

THERESA L. EGAN
Executive Deputy Commissioner



(518) 402-4860

February 24, 2016

Mr. John Buyce
Audit Director
New York State Office of the State Comptroller
110 State Street, 11th Floor
Albany, NY 12236

Re: Draft Audit Report 2015-S-66

Dear Mr. Buyce:

We have reviewed the draft audit findings and recommendations regarding the Quality of the Internal Control System at the Department of Motor Vehicles (Department). We appreciate the efforts of your audit team and acknowledge the depth of their review.

Before we discuss the report in more substantive detail, I think that it is important to note that the Department has robust internal controls that manage all areas of risk confronting the agency, including risks to revenue acceptance of identity documents and access to personal information, to name just a few. Those controls have been in place since the New York State Governmental Accountability, Audit and Internal Control Act ("the Act") became effective in 1989. The components of our internal control review program, as required by the Act, are but a part of our enterprise approach to risk management.

In addition, and as explained in greater detail herein, we disagree with your contention that we have not developed a plan to complete our internal control review program. Since the receipt of your preliminary report in December, 2015, we have refined our internal control plan to more specifically address some of the draft audit findings. As modified, the plan encompasses refinement and consolidation of our list of major functions to be assessed, requires unit managers to evaluate their control environment, information, monitoring and communications systems, and increases understanding and awareness of internal controls and the internal control review program.

We believe it is important to highlight the enterprise risk management approach the Department, along with our Internal Control Office (ICO), takes to ensure sufficient internal controls are in place to protect revenues, financial account data and our customers' personal information – our primary responsibilities. We also believe it is important to emphasize the role of our ICO in coordinating responsibilities and overseeing internal control activities among Department personnel.

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*See State Comptroller's Comment Page 16.

In other words, although the findings of the draft report may suggest the Department's internal control program is somehow "incomplete", one should not be left with the impression that the Department's overall program of internal controls and risk management is deficient. In fact, given the size of the Department, the volume of work we process and the number of agencies and entities we interact with, our efforts to manage and control risk is exemplary.

The Department employs approximately 2,200 FTEs dispersed among our Swan Street location and the 50+ offices spread across the state – both District Offices and unit satellite offices. In addition, our County Clerk partners conduct DMV business at approximately 100 locations in their respective counties. Collectively, the Department processes over 20 million transactions each year (in-office, by mail and over the internet) and collects about \$1.8 billion in annual revenue. Moreover, among law enforcement, other government agencies, and pay-for-search customers, we process tens of millions of requests for information each year. The above provides merely a glimpse into the scope of the vulnerabilities we manage every day.

Although the Department has always taken its responsibility to minimize institutional risk very seriously, that commitment was formalized in 2007 when it established the Office of Integrity. When initially established, the Deputy Commissioner for Integrity oversaw the Division of Field Investigation (DFI), the Information Security Office (ISO) and the ICO, as well as serving as the agency Ethics officer. The Office of Integrity was further enhanced in 2015 with the creation of our Office of Risk Management and the assignment of administrative responsibility for our Audit Services Office. ISO was taken over by the Office of Information Technology Services in 2012.

Among the groups within the Office of Integrity, DFI investigates thousands of fraud cases each year, our Audit Services Office conducts hundreds of on-site audits of internal and external partners annually, and our Risk Management Office has begun to more aggressively monitor and, when necessary, sanction the thousands of entities and individuals with access rights to our license and registration databases.

With regard to the ICO, the Department acknowledged in our "2014-2015 Internal Control Summary and Certification Form" submitted to the Division of Budget that the internal control review program was "partially compliant" - mainly due to the other value added activities undertaken by the ICO throughout the reporting period.

Our ICO is one element of an enterprise risk management approach that recognizes vulnerabilities and implements solutions to reduce risk.

Our approach of tasking the ICO with other activities, in addition to conducting the internal control review program, is consistent with the October 2007 Executive Briefing Book regarding the Internal Control Act, wherein the Director of Budget advised that, "[t]he Internal Control Officer should not be solely responsible for carrying out the agency's control program, but is expected to coordinate responsibilities among appropriate personnel within the agency and to oversee those activities as part of an **overall internal control effort.**"

The Department has followed the Budget Director's guidance by assigning our ICO to engage in activities that contribute to the overall goal of controlling risk. Those activities include playing an integral role in the Department's effort to become compliant with Payment Card Industry Standards – the topic of a recent OSC audit ("Security and Effectiveness of Department of Motor Vehicles' Licensing and Registration Systems" September 2014); continually reviewing and updating Department policies; maintaining and updating our Continuity of Operations Plan (COOP) as part of emergency

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preparedness; and communicating to staff via agency-wide newsletters covering such topics as “Internal Controls”, “Driver Privacy Protection Act”, “Securing Electronic Data” and “Fraudulent Document Awareness”.

More recently, the ICO has participated in the Governor’s LEAN initiative - designed to improve programmatic efficiency within individual business units. By serving as an Empire Belt for two LEAN projects, the Internal Control officer has advanced the goals of LEAN, as well as increasing staff awareness of the ICO. Moreover, the Department has recently adopted a strategy to require internal control assessments by each LEAN team to provide reasonable assurance that risk does not impede organizational goals and objectives. This integration reflects and balances management’s commitment to continuously improve processes and eliminate waste, with managing the risks arising from those objectives. This also provides an additional opportunity to communicate the role of the ICO as it applies to each unit’s important functions.

Contrary to your statement that “Department officials have not developed a plan on how they intend to complete their internal control review program”, in our December 18, 2015 response to your December 1st preliminary report, we provided to you with the outline of our plan that incorporates your recommendations and enables us to complete our internal control review program. We said:

“During 2016, the ICO will evaluate the current list of functions - with input from senior-level managers - to identify the major functions. The ICO will then request the managers responsible for the major functions to perform an internal control review.

The internal control review program will include a process for unit managers to evaluate their control environment, information and communication systems, and monitoring systems in their units. The program will be consistent with the update to the Committee of Sponsoring Organization of the Treadway Commission (COSO) Internal Control – Integrated Framework (updated 2013). The Department will also adapt any changes OSC advises when they issue their update to the NYS Standards of Internal Controls.

The ICO will develop a strategy, with input from senior-level managers, which will increase understanding and awareness of internal controls and the internal control review program.”

As we continued to consider your recommendations in anticipation of receiving your draft report, our plan to complete our internal control review program has developed further. Specifically, The ICO has already met with senior level managers to evaluate our unit functions and to develop a list of major functions that will require a yearly internal control review. Plus, the form to be used by each unit manager to conduct their internal control review has been redesigned. The new form includes sections requiring each manager to evaluate the control environment, information and communication systems and monitoring systems. The new form also includes directions and a sample completed form to assist managers with completing their reviews. All of this information (forms, directions and samples) will be readily available on the Department’s “Internal Control” intranet site.

The Internal Control intranet site will be further enhanced to include a page dedicated to “Internal Control Management Training/Awareness Program”. The training program will require unit managers to be familiar with the Department’s Internal Control Policy, the Internal Control Guidelines (updated to the 2013 Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework, “How High is Your Risk?”) and DOB’s “Manager’s Testing Guide”. Unit Managers will be required to

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execute an annual acknowledgement that ensures they have reviewed, and are familiar with, these materials.

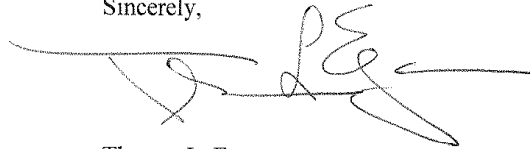
The Department's Internal Controls intranet site will be the central repository of all the information unit managers will need to complete the evaluations of their major functions. In addition, the ICO will meet with each unit manager during the period when they are completing their internal control review assessment forms to ensure that they understand internal controls and that they are evaluating their major functions in accordance with our internal control review program.

As a means to reach out to all staff and increase understanding of our Internal Control Review Program, the Department will designate the month of March as "Internal Control Month" within the Department. We will kick-off "Internal Control Month" with a banner prominently posted to our intranet page that will link to a Department newsletter describing our internal control program, providing links to our internal controls training materials, and promoting awareness of the upcoming release of the major function internal review assessments to unit managers.

These changes constitute a fully developed plan that will enable us to complete our internal control review program this year, and each successive year thereafter.

If you have any questions or concerns relative to this response, please contact Thomas P. Higgins Deputy Commissioner for Integrity at (518) 474-0846.

Sincerely,



Theresa L. Egan
Executive Deputy Commissioner
NYS Department of Motor Vehicles

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State Comptroller's Comment

1. At the time of our audit fieldwork, the Department had no formal plan detailing how it would complete its internal control review program. In response to our preliminary findings, in December 2015, officials provided an outline of a plan that incorporated our recommendations. In responding to our draft report, officials reported further progress in refining and implementing their plan. We revised our report, as appropriate, to acknowledge this progress.