

***State of New York  
Office of the State Comptroller  
Division of Management Audit  
and State Financial Services***

**DEPARTMENT OF MOTOR VEHICLES**

**IMPLEMENTATION OF THE NEW  
YORK STATE GOVERNMENTAL  
ACCOUNTABILITY, AUDIT AND  
INTERNAL CONTROL ACT OF 1987**

**REPORT 96-S-92**



***H. Carl McCall***  
*Comptroller*



# State of New York Office of the State Comptroller

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## Division of Management Audit and State Financial Services

### Report 96-S-92

Mr. Richard E. Jackson, Jr.  
Commissioner  
Department of Motor Vehicles  
Empire State Plaza  
Albany, NY 12228

Dear Mr. Jackson:

The following is our report on the Department of Motor Vehicles' implementation of the New York State Governmental Accountability, Audit and Internal Control Act of 1987.

This audit was done according to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law. We list major contributors to this report in Appendix A.

*Office of the State Comptroller  
Division of Management Audit  
and State Financial Services*

April 23, 1998

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# Executive Summary

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## Department Of Motor Vehicles Implementation Of The New York State Governmental Accountability, Audit And Internal Control Act Of 1987

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### Scope of Audit

The Department of Motor Vehicles (Department) promotes safety on the State's highways by licensing drivers, registering motor vehicles, and providing related services. The Department operates from its central office in Albany and three regional headquarters in Albany, Long Island and New York City. The Department also operates 29 district offices which issue licenses and registrations. In addition, 88 county clerk offices act as the Department's agents in many areas of the State. In fiscal year 1996, the Department collected more than \$900 million in revenue and processed more than 20 million transactions and telephone inquiries. The Department has a workforce of about 3,400, not including workers in the county clerk offices.

A comprehensive system of internal controls is necessary to foster effective and efficient use of resources, to ensure the integrity of accounting and record keeping systems, and to ensure management's objectives are being achieved. A program for internal control review provides management with a means to identify control weaknesses and to plan corrective actions. To this end, the Legislature enacted the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act), which required every State agency and public authority to establish a formal system of internal controls and internal control review.

Our audit addressed the following question regarding the Department's compliance with the provisions of the Act:

- Has the Department complied with the Act at its central office and State-run district offices?

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### Audit Observations and Conclusions

We found that, in many areas, the Department has implemented a system of internal controls and internal control review that generally complies with the provisions of the Act. However, we believe that the Department can improve its internal control system in several areas, including the issuance of certain documents, supervisory review of staff work, and the collection of sales tax.

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The Department's controls over the issuance of driver licenses and non-driver identification cards are not sufficient to prevent or detect the issuance of fraudulent documents. In fact, during the course of our audit, the State Inspector General conducted an investigation in which investigators were able to obtain fraudulent non-driver identification cards from corrupt Department employees. An applicant for a driver license or identification card is required to provide adequate proof of identification, which a Department employee is required to review before the license or identification card is issued. However, adequate controls are not in place to ensure Department employees are actually reviewing such proof. We recommend that the Department establish a method to verify that employees are reviewing adequate proof of identification for new driver licenses and non-driver identification cards. (See pp. 5-10)

Supervisors at district offices have several tools to deter and detect inappropriate transactions by employees, including observing employees while they work and performing audits of their work. We pointed out that certain audits would be more effective in detecting the issuance of fraudulent documents if employees were required to maintain copies of the identification submitted by the applicant, as previously recommended. We also recommended that the scope of the audits needs to include a review of employee processing of sales tax revenue, since the Department has reported the theft of such revenue in the past. (See pp. 10-13)

The Act requires agency management to designate an internal control officer to implement and review the provisions of the Act. The Department has designated its Director of Audit Services as its internal control officer. However, this individual is also responsible for planning and overseeing internal audits of the Department's units and programs, including their system of internal controls. The current Director of Audit Services has established an approach for maintaining his independence between the roles of internal control officer and internal auditor. As there is a potential conflict between the responsibilities of implementing internal control systems and independently assessing their effectiveness, we recommend that the Department designate an employee who does not have internal audit responsibilities as its internal control officer. (See pp. 14-16)

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## **Comments of Agency Officials**

Draft copies of the matters contained in this report were provided to agency officials for their review and comment. Their comments were considered in preparing this report and are included as Appendix B. Agency officials believe their approach for maintaining independence between the roles of internal control officer and internal auditor is adequate. Agency officials also believe the cost of photocopying proof of identification for new driver licenses and non-driver identification cards will outweigh the benefits derived and increase customer wait times.

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<b>Appendix A</b>	Major Contributors To This Report
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# Introduction

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## Background

The Department of Motor Vehicles (Department) promotes safety on the State's highways by licensing drivers, registering motor vehicles, and providing other related services. The Department operates from its central office in the Empire State Plaza in Albany and three regional headquarters in Albany, Long Island and New York City. The Department also operates 29 district offices which issue licenses and registrations as well as process traffic tickets. In addition, 88 county clerk offices act as the Department's agents in many areas of the State.

In the 1995-96 fiscal year, the Department collected more than \$900 million in revenue and processed more than 20 million transactions and telephone inquiries. State-run offices completed 8.5 million transactions, while county clerk offices completed 6.7 million transactions. Also, the Department's three telephone call centers handled more than 5 million customer inquiries. The Department has a workforce of about 3,400, not including workers in the county clerk offices.

The Department also adjudicates traffic violations in New York City, Buffalo, Rochester and western Suffolk County. This adjudication program is funded by fines collected from violators. After State operating expenses are deducted, the remaining funds are returned to the jurisdiction where the violations occurred. According to their records, the Department adjudicated more than 5 million tickets statewide and collected about \$56.5 million in fines, of which the Department retained nearly \$26 million.

A comprehensive system of internal controls is necessary for management to foster effective and efficient use of resources, to ensure the integrity of accounting and record keeping systems, and to ensure management's objectives are being achieved. A program for internal control review also provides management with a mechanism to identify control weaknesses and to plan the necessary corrective actions.

In 1987, the Legislature enacted the New York State Governmental Accountability, Audit and Internal Control Act (Act), which became fully effective on April 1, 1989. The Act requires every State agency and public authority to complete the following six steps:

1. Establish and maintain agency guidelines for a system of internal controls.
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2. Establish and maintain a system of internal controls and a program of internal control review. The program of internal control review shall be designed to identify internal control weaknesses and identify actions that are needed to correct those weaknesses.
  3. Make available to each officer and employee of the agency a clear and concise statement of generally applicable management policies and standards with which the officer or employee will be expected to comply.
  4. Designate an internal control officer to implement and review the internal control responsibilities.
  5. Implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.
  6. Periodically evaluate the need for an internal audit function.

To guide State agencies in implementing the Act, the Division of the Budget (DOB) issued Budget Policy and Reporting Manual Bulletin B-350 and other related budget bulletins. Bulletin B-350 requires each State agency to certify compliance with the Act by March 31 of each year, and report actions taken regarding internal control reviews by July 1 of each year.

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## **Audit Scope, Objective and Methodology**

We audited the Department's efforts to implement the provisions of the Act for the period January 1, 1994 through May 31, 1997. Our objective was to determine whether the Department has taken the steps necessary to comply with the Act and related DOB bulletins at its central office and State-run district offices. We did not include in our audit the county-run motor vehicle offices as they are not subject to the provisions of the Act. To accomplish our objective, we reviewed the Department's implementation efforts relative to the provisions of the Act, DOB bulletins, and Office of the State Comptroller (OSC) Guidelines for Internal Controls in New York State Government. We also interviewed Department officials and reviewed Department policies and procedures, training and educational records, internal audit records, and operating records at three Department district offices.

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We did our audit according to generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess those procedures and operations of the Department included within the audit scope. Further, these standards require that we understand the Department's internal control structure and compliance with those laws, rules and regulations that are relevant to the Department's procedures and operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those procedures and operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use our finite audit resources to identify where and how improvements can be made. Thus, we devote little audit effort to reviewing procedures and operations that may be relatively efficient or effective. As a result, our reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

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## **Response of Department Officials**

Draft copies of the matters contained in this report were provided to agency officials for their review and comment. Their comments were considered in preparing this report and included as Appendix B.

Agency officials believe that independence is maintained between the roles of internal control officer and internal auditor as exercised by the Director of Audit Services because he cannot become involved in the design or development of internal controls without the approval of the Audit Committee and executive management. This arrangement requires the Audit Committee and executive management to expend extra effort to continuously monitor the detailed activities of the Director of Audit Services to ensure that the necessary independence is maintained. We believe that, in an organization as large as the Department, it would be more prudent to separate the functions of the Director of Audit Services and the internal control officer.

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Agency officials also believe that the cost of photocopying proof of identification for new driver licenses and non-driver identification cards will outweigh the benefits derived and increase customer wait times. We agree that the cost of an internal control should not outweigh the benefits obtained. However, fraudulent identification costs businesses and government billions of dollars annually. As such, we believe that additional controls to help deter improper issuance of license and non-driver identification is necessary and justified.

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 therefor.

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# Implementation of the Internal Control Act

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We audited the Department's implementation of the Act at its central office and three district offices. As detailed in the following sections, we found that, in many areas, the Department generally complied with each of the six requirements of the Act. However, the Department needs to improve its internal control system related to the issuance of certain documents, supervisory review of staff work, and the collection of sales tax. Also, while the Department has designated an internal control officer, we believe that the person so designated has other duties that conflict with those required of being an internal control officer and the Department should therefore designate another person for the job.

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## **Requirement 1: Internal Control Guidelines**

The purpose of the internal control guidelines is to communicate, to all employees, management's goals and programmatic objectives and to provide methods and procedures that will be used to assess internal control effectiveness. The internal control guidelines should include a statement from the head of the organization supporting internal controls and should identify the organization's primary responsibilities and functions as well as the objectives of those functions. The guidelines should also describe the process for evaluating internal controls and explain how the internal control process is organized and managed.

We found that the Department has developed appropriate internal control guidelines for its major organizational units and programs. Department management has communicated these guidelines through its Internal Control Process Reference Manual and its Operating Policy and Procedure Manual.

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## **Requirement 2: Internal Control System and Review Process**

In accordance with Section 951 of the Act, agencies are required to establish and maintain a system of internal controls and a program of internal control review. Bulletin B-350 recommends that agencies follow these steps in complying with this requirement of the Act:

- identify and document their primary operating responsibilities,
- define their objectives and ensure staff understand the objectives,
- identify and document the procedures to carry out functions,
- assess and test the procedures to determine if they are sufficient,

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- determine the risks and consequences associated with a failure of the control system, and
  - design a cost-effective plan of corrective action when weak or inadequate controls are identified.

### **System of Internal Controls**

We found that, in many areas, Department management has established a comprehensive system of internal controls addressing its many functions and operations, and as a result, is in general compliance with this requirement. The system of internal controls has been communicated to Department staff through its Internal Control Process Reference Manual and Operating Policy and Procedure Manual.

In addition, to assess whether the Department's established controls were functioning as intended, we reviewed controls at three district offices. We found several weaknesses that need to be addressed to further strengthen the internal control system.

#### **1. Issuance of Driver Licenses and Non-Driver Identification Cards**

We concluded that the Department's controls over the issuance of driver licenses and non-driver identification cards are not sufficient to prevent or detect the issuance of fraudulent documents. Also, current controls do not provide the Department with the ability to determine the number of documents that may have been fraudulently issued.

To obtain a New York State driver license or non-driver identification card, an individual must go to a Department office. The process begins with the individual having their photo taken and stored digitally by computer. Generally, the individual's proof of identity has not yet been checked. The individual is given a receipt for the photo. Next, the individual brings the photo receipt, a completed Department application form, adequate proof of identity, and payment to a Department employee. The Department employee is required to review the various proofs of identity and to note on the application what proofs were reviewed. The employee then examines the application and enters the information into the computer. The employee enters the photo receipt number to link the photo with the application in the computer. A temporary license or identification card, without a photo, is printed out and handed to the applicant. A permanent license or identification card with photo is mailed to the individual later.

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The Department's application lists more than 30 acceptable proofs of identity which can be used to obtain a license or non-driver identification card, such as a passport, major credit card, pay stub, and utility bill. The Department has assigned a point value to each proof. For example, a passport has a point value of 3 while a utility bill has a value of 1. An individual must present proofs of identity with point values totaling at least 6 points.

A driver license is considered the most accepted document of identification today, enabling a person to conduct a variety of transactions. The Department has communicated to the issuing offices the importance of accepting bona fide proofs of identity. The Department has informed issuing offices that there are many reasons why proper identification has become important to our society. Likewise, these reasons also explain why there is a market for fraudulent documents. Some of the reasons cited by the Department follow:

“Proper identification is important in consumer credit . . . . Documents such as fraudulently obtained driver licenses are necessary to continue the fraud.”

“Criminal losses in the United States due to false identification cost the taxpayers billions of dollars each year.” According to the Department's Operating Instructions developed in 1995, this loss has been estimated between \$16 billion and \$20 billion annually.

“People with 'poor' driving records are frequent users of fraudulent documents. By obtaining licenses in several jurisdictions a driver can disguise their record of accidents and traffic violations/convictions.”

In addition, the losses associated with fraudulent identification and the cost of prosecuting perpetrators affect our businesses and communities as these costs are passed along to consumers and taxpayers. The Department has recognized its role has changed significantly. The driver license no longer serves the single purpose of permitting a person to drive. Thus, the services the Department provides not only impact the driving public, but also the business and social communities as well.

Between January 1, 1994 and March 31, 1997, the Department's Office of Deputy Inspector General completed 29 investigations involving criminal intent and other official misconduct. Eleven of the 29 cases pertained to the sale of official documents, of which eight cases involved the fraudulent issuance of driver licenses or non-driver identification

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cards. These cases resulted in either a conviction and/or a reprimand of the employee. Also, the Deputy Inspector General told us that there is a significant risk associated with the issuance of fraudulent documents by Department employees.

In May 1997, the State Inspector General issued a report on its investigation into the issuance of fraudulent documents in the Department. State Inspector General investigators were able to obtain fraudulent non-driver identification cards through middlemen who worked with corrupt Department employees. The investigators paid between \$650 and \$700 for each fraudulent card. In each instance, the Department employees had indicated on the application that they had reviewed the required pieces of identification, when, in fact, they had not been provided with anything to verify the applicant's identity.

In its report, the State Inspector General recommends that all the forms of identification used by an applicant should be copied to provide a method to audit an employee's work. The report says that this is critical to ensure the integrity of the driver license and non-driver identification issuance. The Department has not required that such copies be made. Without copies of the proofs of identification, supervisors conducting audits of an employee's daily work (batch audits) have no way to ascertain whether the cashier saw any identification at all.

The Office of the State Comptroller had previously reported on this issue in Report 92-S-108, issued August 19, 1994. At that time, we recommended that the Department evaluate and ascertain the costs and benefits of establishing various controls to ensure that employees actually see authentic proofs of identity, including photocopying or recording details of the proofs. Department officials responded that they had evaluated the impact of photocopying the proofs and found it would be too costly and time consuming. Department officials responded similarly to this issue when we raised it during our current audit. When we asked to see the documentation for the Department's cost/benefit evaluation, Department officials said a formal analysis was not available.

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Department officials stated that they are installing a new computer system which will require employees to record the types of proofs presented to them when processing license and non-driver identification transactions. The Department plans to use this data to analyze trends in the recorded information to possibly target employees for more detailed batch audits. We believe that, without copies of the proofs to review, the additional batch audits will not readily identify fraudulent transactions. Therefore, it is time that Department management strengthen control in this area. This could involve the photocopying of customers' proofs or other methods to enable management to ensure the propriety of completed transactions.

Department management does not feel that the benefits of photocopying proofs will outweigh the additional equipment, paper and storage costs. Department management also believes that photocopies can easily be altered and, therefore would not serve to effectively deter fraud. In addition, management claims that photocopying proofs will increase customer wait times. We agree that the cost of an internal control should not outweigh the benefits obtained. However, fraudulent identification costs businesses and government billions of dollars annually. As such, we believe that additional controls to help deter improper issuance of license and non-driver identification is necessary and justified.

Another operating practice provides employees with further opportunities to issue fraudulent documents. Current procedures allow customers to have their picture taken prior to having their documents checked for completeness. If the customer does not have sufficient or proper proof of identification, he or she is allowed one week to return with the proof, during which time the picture is retained on the office computer. After one week, the picture is deleted. Based on discussions with Department officials, we noted this practice could enable a Department employee to fraudulently issue documents. A concurrent investigation by the State Inspector General confirmed the serious nature of this problem.

The State Inspector General's report recommended that the driver license/non-driver identification application process be completed all at one time. An applicant would be required to provide proofs of identification, have their photo taken and pay the required fees in one trip. Based on the potential for fraud, we recommend that the Department delete the photo when a transaction cannot be completed. In response, Department officials are examining a reduction in the period of time that the photo is retained.

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## **Recommendations**

1. Establish a method of verifying that employees are reviewing adequate proof of identification for new driver licenses and non-driver identification cards.
2. Immediately delete photos when a transaction for a driver license or non-driver identification card cannot be completed.

### **2. Supervisory Review of Staff Work**

Supervisors at the district offices have several tools to deter and detect inappropriate transactions by employees, including observing employees while they work and performing various audits of their work. These include random transaction audits, station audits, and batch audits, described as follows.

During a random transaction audit, a supervisor intervenes before the employee releases the completed documents to the customer. The supervisor will review all documents to ensure that the customer has met Department requirements and the employee has processed the transaction according to Department policies and procedures.

In a station audit, the supervisor reconciles cash on hand with the records, accounts for security documents such as license plates, and checks the work area for unusual or possibly fraudulent documents.

To conduct a batch audit, the supervisor selects an employee's daily work to determine whether the employee followed Department policies and procedures in processing transactions. The supervisor reviews each transaction to determine whether the proper documentation was presented and reviewed by the employee and was properly processed.

Random transaction audits and station audits are to be done on an unannounced basis during the course of the workday. This would serve to deter inappropriate transactions, such as issuing fraudulent licenses or non-driver identification, as employees would not know when they may have a supervisor approach and carry out such an audit. Random transaction audits would only detect an inappropriate transaction if it was the transaction being processed at that time. A station audit would detect

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any previous inappropriate transactions if there were materials in the work area which would indicate such.

Batch audits, which cover all of an employee's transactions for a day, can be useful in detecting the issuance of fraudulent licenses and non-driver identification. The supervisor reviews the types of identification recorded by the clerk as being checked to ensure that the clerk is not always recording the same types of documents in every transaction. Such a pattern would suggest that the employee may not have really reviewed valid identification. However, while batch audits could detect the issuance of fraudulent driver licenses and non-driver identification, their usefulness to do so is limited since, as noted earlier, no copy is maintained of the identification submitted by the applicant. By strengthening controls in this area, as previously recommended, the Department will improve the effectiveness of batch audits.

We also found that the number of the audits performed has decreased significantly in recent years at the three district offices we visited. For example, at one district office, the number of random transaction audits had decreased from 57 a month in 1994 to 18 a month in 1996. The number continued a downward trend during the early part of 1997. Similar decreases were noted for the various types of audits done by the three district offices. In addition, the supervisors at one district office had not performed a random transaction audit in more than three and one-half years prior to our visit.

The decrease in the number of audits cannot be explained by changes in staffing at the three district offices. According to Department records, the number of supervisory staff has remained constant at two of the district offices and has decreased from five to four supervisors for the other district office during the same three years. The records also showed that employee staffing levels have remained fairly constant over the same period. The State Inspector General's May 1997 report indicates that the random transaction audits and station audits are often not done to save time and to move the public more quickly through the Department offices.

In response to our findings, the Department indicated that it has recently issued minimum frequencies for the conduct of random transaction audits. The Department expects to set minimum standards for the frequency of batch audits with its new batch audit procedures. The Department has also issued standards for recording and reporting the performance and results of the audits.

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## **Recommendation**

3. Set expectations for the frequency of batch and station audits of employee work activities.

### **3. Collection of Sales Tax**

When a customer registers a vehicle that has changed ownership, the Department will collect any sales tax that is due, if the customer has not already paid the taxes. We found there is a significant risk associated with the theft of sales tax because the Department's current controls do not require supervisors to ensure employees process sales tax transactions appropriately. In fact, the Department's Deputy Inspector General stated that once an employee becomes familiar with the Department's procedures for processing sales tax transactions, they could readily conceal such thefts. The Deputy Inspector General provided information on two cases that involved the embezzlement of \$2,100 and \$1,000, respectively, of sales tax revenue by employees.

We noted that the Department form used by supervisors to conduct batch audits does not require supervisors to review sales tax transactions when they perform these audits. Thus, if supervisors follow the Department's form, they will not even review the sales tax documentation. In fact, at the one district office we visited, the sales tax forms are removed for eventual shipment to the Department of Taxation and Finance prior to the batch audits being conducted. In contrast, we did observe that supervisors at another district office review their employee's work to ensure the appropriate number of tax forms was presented and that the appropriate amount of tax was collected.

In an internal audit report dated September 28, 1995, the Department's Audit Services identified significant vulnerabilities in one district office's internal control system. The report stated that batch reviews of documentation supporting sales tax transactions have been lax. The report also noted that the established procedures for conducting a batch audit were not adequate. Audit Services examined documentation pertaining to the processing of sales tax applications and found that the amounts of sales tax collected often were not supported by the information contained on the sales tax application. Audit Services recommended that this district office incorporate additional steps into its batch reviews to ensure that sales tax

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processing is fully supported by the information contained on the customer's applications.

We believe the Department should incorporate supervisory review of sales tax transactions into its batch audit procedures. Department officials indicated they are revising their batch audit procedures and plan to include the review of sales tax documentation in the revised procedures.

### **Recommendation**

4. Strengthen existing controls to prevent and detect the theft of sales tax revenue by including the review of sales tax documentation in batch audit procedures.

### **Program of Internal Control Review**

According to the Act, a primary operating responsibility at an agency can be defined as a program, bureau or office which is charged with specific objectives and responsibilities. Bulletin B-350 requires agencies to identify and document their primary operating responsibilities and functions as well as the related objectives. Agencies are also required to determine the risks and consequences associated with a failure of the internal controls for each primary operating responsibility. Agencies normally fulfill this requirement by conducting vulnerability assessments.

A vulnerability assessment is a systematic approach for ascertaining the susceptibility of a function to errors, irregularities, unauthorized use, or inappropriate program results. A vulnerability assessment can be used to determine the likelihood that something could go wrong and to evaluate the seriousness of those consequences. It is intended to provide a road map indicating which functional areas should receive priority attention from management. A vulnerability assessment also provides the agency with preliminary judgment from managers about the adequacy of existing internal controls, and where internal controls may be weak and need correction.

The Department has established a program of self-assessment by which unit managers evaluate their risks and controls through vulnerability assessments. All Department units, divisions and State-run district offices participate in this process. Managers are to review each function in their program areas and prepare vulnerability assessments. These assessments

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are forwarded to Audit Services for review and entry into a computer database. Audit Services is to provide written feedback to the managers and track and monitor implementation of corrective action where weaknesses were identified.

For fiscal year 1996-97, the Department sought and received approval by the Division of the Budget to skip a year of its self-assessments. Department management said that it was undergoing a reorganization and that it wished to revamp the self-assessment process. Management said these two initiatives would require the efforts of many of the same individuals needed to do the self-assessment under the existing process. In addition, the reorganization would put new people in new units, thereby reducing the value of the vulnerability assessments. The Department was still developing its new self-assessment process at the time of our audit and had not yet fully implemented it.

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**Requirement 3:  
Statement of  
Management  
Policies and  
Standards**

The Act requires agency management to make available to employees a clear and concise statement of generally applicable management policies and standards.

In January 1997, the Commissioner issued a statement to all Department employees supporting internal controls and notifying staff of the major components of the Department's internal control system. This was done as part of the Department's biannual notice on internal controls to employees.

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**Requirement 4:  
Internal Control  
Officer**

The Act requires the management at each agency to designate an internal control officer to implement and review the internal control responsibilities established by the Act. In Bulletin B-1089, DOB stated that the internal control officer should have sufficient authority to act on behalf of the agency head in implementing and reviewing the agency's internal control program. The bulletin continues that the internal control officer should delegate internal control activities to appropriate agency personnel and coordinate those activities as part of an overall internal control effort. In Bulletin B-350, DOB stated that the internal control officer should work with agency personnel to coordinate the internal control activities of the agency and to ensure that the agency's internal control program meets the requirements of the Act.

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The Department has designated the Director of Audit Services as its internal control officer. In its Internal Control Guidelines, the Department assigned its internal control officer the responsibility for evaluating the effectiveness of the internal control process and determining the quality and substance of the internal control reviews performed.

Exclusive of his duties as internal control officer, the Director of Audit Services is also responsible for planning internal audits, overseeing their implementation and issuing internal audit reports within the Department. In Bulletin B-1090, DOB stated that “(t)he internal audit unit must be organizationally independent to permit auditors to be objective, impartial and unbiased in the execution of their audit responsibilities.” In its guidance for implementing the Act, DOB stated that to protect the integrity of the internal audit function, the internal control officer should not conduct internal audits, act in the capacity of an internal auditor, or be organizationally assigned to the internal audit unit.

While agencies are not required to follow this guidance, we believe that the recommended separation of the internal control officer and the internal audit function is appropriate and valid. One of the generally accepted professional standards for internal auditors is that they must be independent of the functions which they audit. Independence is important to permit the auditors to be objective, impartial and unbiased. An auditor should be independent in fact and appearance.

The Director of Audit Services said that his role as internal control officer is to provide guidance to managers on identifying and assessing risks, developing controls, and evaluating those controls. The Director of Audit Services told us that neither he nor his staff become involved in the actual design or development of internal controls. Design and development of controls is performed by program managers. He also stated that, when a program manager is experiencing difficulty in the proper design or development of internal controls, detailed direction is provided by Department offices other than the Audit Services unit. As such, his role as internal control officer does not affect his independence in examining and evaluating the Department’s system of internal controls. In addition, Department officials state that the Division of the Budget has approved this arrangement.

While under this arrangement the roles of the internal control officer and internal auditor may be relatively independent, this arrangement is still under the purview of the Director of Audit Services. As such, it is within his discretion as permissible under the Act, to become involved in the design and development of internal controls. Further, should he retire or

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be transferred, there is no assurance the new Director of Audit Services would maintain the same unique role. Department officials stated that the Director of Audit Services cannot become involved in the design or development of internal controls without the approval of the Audit committee and executive management. This arrangement requires the Audit Committee and executive management to expend extra effort to continuously monitor the detailed activities of the Director of Audit Services to ensure that the necessary independence is maintained. We believe that, in an organization as large as the Department, it would be more prudent to separate the functions of the Director of Audit Services and internal control officer.

To better provide the appearance that the internal audit function is independent and to protect against potential conflicts between the two roles, the Department's Director of Audit Services should not also be its internal control officer.

**Recommendation**

5. Designate an internal control officer that is separate from the Department's internal audit function.

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**Requirement 5:  
Internal Control  
Education and  
Training**

Each agency is required to educate and train managers and employees on internal control standards and, as appropriate, evaluation techniques. DOB Bulletin B-350 requires that training be directed at employees most responsible and accountable for the assessable units.

The Department has instituted education and training activities on internal controls. The Department has produced a video on internal controls which has been provided to all employees. Other educational efforts include internal control training for new employees and new supervisors, refresher training for recommended employees, fraud training, and training on the Department's internal control review process. The Department also provides employees with pamphlets on internal control topics twice a year.

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**Requirement 6:  
Internal Audit  
Function**

The Act requires that an agency's internal audit function be headed by an internal auditor who shall report to the head of the agency.

The Department has an internal audit function. However, at the time of our audit, the position of director of internal audit was vacant. In lieu of appointing a director of internal audit, the Department has used its Director of Audit Services to carry out of the general responsibilities of a director of internal audit.



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# Major Contributors to This Report

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William Challice  
David R. Hancox  
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Brian Lotz  
Tom Riley  
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STATE OF NEW YORK  
DEPARTMENT OF MOTOR VEHICLES  
EMPIRE STATE PLAZA  
ALBANY NEW YORK 12228

RICHARD E. JACKSON, JR.  
COMMISSIONER

GREGORY J. KLINE  
DEPUTY COMMISSIONER  
FOR ADMINISTRATION

March 2, 1998

Mr. William P. Challice  
Audit Director  
Office of the State Comptroller  
Division of Management Audit & State  
Financial Services  
270 Broadway, 19th Floor  
New York, NY 10007

Dear Mr. Challice

Attached is the Department of Motor Vehicles' response to the draft audit report on *Implementation of the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (96-S-92)*.

If any additional information is required, please contact me at (518) 474-6876.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gregory J. Kline'.

Gregory J. Kline  
Deputy Commissioner

GJK:bj  
Attachment



49% Rec. Consumer Content, 10% Post-Consumer Content

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## OSC Audit on Implementation of the Internal Control Act

### 1. Issuance of Driver's Licenses and Non-Driver Identification

Recommendations:

1. *Establish a method of verifying that employees are reviewing adequate proof of identification for new driver's licenses and non-driver identification cards*
  - a. WISE system will allow for recording proofs presented when processing license/NDID transactions.
  - b. An internal control system should not cost more than the benefits derived. We do not feel that benefits of photocopying proofs will outweigh costs. Photocopies can be easily altered (substituting photos, licensee information, when photocopying), and therefore are not necessarily a deterrent to fraud. Equipment, paper, and storage costs could be significant, as well as increase customer processing times and increasing customer wait times.
2. *Immediately delete photos when a transaction cannot be completed.*
  - a. The Department is looking at reducing the period of time that a photo is retained. DMV's Division of Field Investigation does prefer that images be retained in cases where an Motor Vehicle Representative suspects fraud.

### 2. Supervisory Review of Work

Recommendations:

3. *Set expectations for the frequency of batch and station audits of employee work activities.*
  - a. We agree. The team currently revising batch audit procedures is also looking at minimum standards for frequency of batch audits. Audit Services also feels that these standards should be enforced by periodic reporting to Operations upper management (or to Audit services), follow up by Operations management, and holding issuing office managers accountable for adhering to the standards.
  - b. Statistics indicate minimal fraudulent activity (8 cases in a three year period), which, as part of our internal control process, shows that the system is working to catch those who perpetrate fraud.

### 3. Collection of Sales Tax Funds

Recommendations:

*Strengthen existing controls to prevent and detect the theft of sales tax revenue by including the review of sales tax documentation in batch audit procedures.*

- 4a. We agree. A team comprised of upstate and downstate District Office representatives, and Audit Services staff, is revising batch audit procedures to address deficiencies.
- b. The Department of Taxation & Finance retains custody of sales tax paper documentation, and routinely receives tapes of sales tax transactions. They are in a better position to conduct testing on aggregate data and supporting documentation.

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## OSC Audit on Implementation of the Internal Control Act

### 4. Internal Control Officer

Recommendations:

5. *Designate an internal control officer that is separate from the Department's internal audit function.*
  - a. We continue to disagree with this finding/recommendation. We agree with the section of the report which states: "the current Director of Audit Services has established an approach for maintaining his independence between the roles of internal control officer and internal auditor". However, we disagree with the section that states; "he, or his successor, has the discretion to alter this approach in a manner which might impair independence." In fact, the Audit Services Director does not have this discretion. He and Audit Services report through an Audit Committee to Executive management. Such a change could not take place without Audit Committee and executive management approval.

### General Comments:

Proof of ID Bottom of Page 5 - The employee enters the photo receipt number to link the photo with the application in the computer. (We also compare the digitized image with the face of the applicant standing in front of us. This control was not addresses in the report).

Collection of Sales Tax Page 11, 2nd paragraph - This talks about the employee collecting the appropriate fees for reg and tax but only processing the fees for the registration. In fact, the receipt we provide the customer shows the sales tax collected. The customer will know if the sales tax was not recorded.