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August 24, 1998

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

Re: Report of Net Assessable Expenses
Report 97-S-47

Dear Mr. Jackson:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution, Section 8, Article 2 of the State Finance Law, and Sections 317 and 363 of the Vehicle and Traffic Law, we have audited the process followed by the Department of Motor Vehicles (Department) to develop its Report of Net Assessable Expenses (Assessment), which enumerates the expenses the Department incurs in its administration of the Motor Vehicle Financial Security Act and the Motor Vehicle Safety Responsibility Act. Our audit covered the two-year period ending on March 31, 1997.

A. Background

Sections 317 and 363 of the Vehicle and Traffic Law provide that the Commissioner of Motor Vehicles and the Office of the State Comptroller shall ascertain the total amount of expenses the Department incurs in its administration of the Motor Vehicle Financial Security Act and the Motor Vehicle Safety Responsibility Act (Acts). Once the amount of such expenses is determined, the Commissioner assesses insurance carriers for them on a pro rata basis. Expenses to be assessed include: personal service costs, other-than-personal-service costs (maintenance and operations), the cost of retirement contributions, workers' compensation premiums, rentals for space in State-owned or State-leased buildings, and all other direct and indirect costs. Fees paid by self-insurers and for bonded vehicles under Sections 316 and 370 of the Vehicle and Traffic Law are to be applied toward reducing the annual Assessment.

In preparing the Assessment, the Department uses several electronic worksheets to compute the expenses for each of its major programs. These expenses are allocated to the Assessment based on type; for example, the insurance companies are assessed fully for the expenses of the Insurance Program. Other expenses that are not related to the administration of the Acts, such as those relating to the Motor Voter Program, are not allocated to the Assessment. A portion of the expenses relating to the Department's computer and district office operations are allocated to the Assessment based on the percentage of transactions relating to Acts-related activities. The remaining expenses are allocated based on the percentage of total Department expenses that are Acts-related. All of the expenses are derived from the Department's Expenditure Comparison Report, which uses the Office of the State Comptroller's expense data.

Our review of the Assessments for the fiscal years ending on March 31, 1996 and March 31, 1997, are contained in Reports 98-D-7 and 98-D-8, respectively.

B. Audit Scope, Objective, and Methodology

We examined the Department's process for developing the annual Assessments for the years ending on March 31, 1996 and March 31, 1997. The objective of our audit was to determine whether the Assessments had been compiled appropriately from the Department's records. To accomplish our objective, we interviewed appropriate Department personnel, reviewed procedures, examined the Department's electronic worksheets, and performed such analytical tests as we considered necessary.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those Department operations that are included in our audit scope. Further, these standards require that we understand the Department's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations 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 our audit provides a reasonable basis for our findings, conclusions, and recommendations.

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

C. Results of Audit

The Department's Assessments for the years ending on March 31, 1996 and March 31, 1997, were \$14,865,787 and \$14,543,034, respectively. During our review of the Assessments, we found that the Department had made numerous errors in developing them. As a result, the Department had understated the net assessable expenses it had incurred in Acts-related activities by an average of more than \$280,000 each year. In our previous review of the Department's Assessment (Report 95-D-24, for the fiscal year ending on March 31, 1994), we found that it had understated expenses for that year as well by nearly \$247,000 because similar errors had been made. Based on the results of our reviews, the Department adjusted the Assessments to recover these costs from the insurance carriers.

Many of the errors that we found were systemic, while other errors occurred because Department personnel had not corrected the electronic worksheets after a Department reorganization that resulted in changed cost centers. We believe that further automation of the process and additional training and supervision should reduce or eliminate future errors.

The following are examples of errors we believe the Department could have avoided if its cost-reporting system was automated more fully, its staff were better trained, and it provided appropriate supervisory review.

- Expense data was entered incorrectly into the Assessment worksheets. While the Department has automated the process of combining expense data, information is still listed by cost center description, rather than by cost center number. The combining of cost centers with similar descriptions, but different cost center numbers, resulted in errors when staff prepared the Assessment.
- The Department's Expenditure Comparison Report is generated in hard copy and is later entered manually into the Assessment worksheets. This process is inefficient and has resulted in data entry errors. Furthermore, the Department does not round off expenses consistently to whole dollars.
- The allocation methods (i.e., 100-percent related to Department activity, 100-percent related to the Assessment, or allocable between Department activity and the Assessment) used to calculate some expenses were coded incorrectly. Errors in the allocation of cost centers result in errors in the overall Assessment. For example, while some of the Department's Public Service, Custom Plate Bureau, and Special Registration expenses should have been allocated to the Assessment, they were treated incorrectly as a 100-percent Department activity.
- The Assessment worksheets contained errors in the formulas used to total the numerator in calculating the overall Assessment allocation rate. In several of the worksheets, the formulas had not been adjusted to include cost centers that were

added as a result of the Department reorganization. Errors in these formulas affect the computation of the overall Assessment.

- For the fiscal year that ended on March 31, 1997, the expenses of six district offices were not allocated to the Assessment. For the previous fiscal year, the allocable expenses for the Traffic Safety Law Enforcement and Aid to Localities Programs were not included in the total assessable expenses because they were not carried forward to the final worksheet. In addition, the allocation rate for district offices was computed incorrectly that year because the Brooklyn Coney Island District Office data were included twice.

While the Department has procedures for preparing the Assessment, they have not been updated to reflect current practices and do not include the supervisory review process. The supervisory review is only a cursory review of the net assessable expenses to ensure that they are in line with prior years. The current supervisor has been in the position for two years, but has received no formal training in performing an effective review of the Assessment.

Recommendations

1. *Increase management oversight activities to ensure that expenses assessed under the Motor Vehicle Financial Security Act and the Motor Vehicle Safety Responsibility Act are accurate. Provide assurance that:*
 - *cost centers are coded appropriately as to the proper allocation rate;*
 - *worksheet formulas are accurate;*
 - *data and formulas are rounded off consistently;*
 - *expense data contained in the spreadsheet is accurate;*
 - *the allocation rates for district office and computer operations are applied appropriately to cost centers; and*
 - *all Acts-related programs are included in the final assessable expenses.*
2. *Update the written procedures for preparing and reviewing the Assessment.*
3. *Consider further automation of the Assessment process to reduce data-entry errors and data-entry time, including the possibility of downloading Assessment information directly into the Assessment worksheets.*

4. *Compare reports of expenditures according to fiscal years and cost centers to identify significant variances and determine the reasonableness of the variances.*

A draft copy of this report is being provided to Department officials for their review and comment. Their comments will be considered in preparing the final report and will be included as Appendix A.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner 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.

Major contributors to this report were Abraham Markowitz, Roger Mazula, Deb Spaulding and Randy Partridge.

We wish to thank the management and staff of the Department of Motor Vehicles for their courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Frank J. Houston
Audit Director

cc: Robert L. King