

A REPORT BY THE NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

**H. Carl McCall
STATE COMPTROLLER**



NEW YORK STATE DEPARTMENT OF MOTOR VEHICLES

***AUDIT OF THE DEPARTMENT'S ASSESSABLE
EXPENSES FOR THE ADMINISTRATION OF THE
FINANCIAL SECURITY AND SAFETY
RESPONSIBILITY ACTS FOR THE FISCAL YEAR
ENDED MARCH 31, 1998***

2000-S-36

**DIVISION OF MANAGEMENT AUDIT AND
STATE FINANCIAL SERVICES**

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**NEW YORK STATE DEPARTMENT OF MOTOR VEHICLES
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ADMINISTRATION OF THE FINANCIAL SECURITY AND SAFETY
RESPONSIBILITY ACTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1998**

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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

Comptroller's Report
New York State Department of Motor Vehicles

We have audited the accompanying Statement of Assessable Expenses (Statement) for the fiscal year ended March 31, 1998. The Statement is the responsibility of Department management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used, and significant estimates made, by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 3, the accompanying financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the Statement presents fairly, in all material respects, the Department's assessable expenses for the fiscal year ended March 31, 1998 in conformity with the cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued a report on Department compliance with selected laws and regulations pertaining to the Department's assessment process (Appendix A) and a report on the Department's internal control structure (Appendix B).

Office of the State Comptroller
Date: March 5, 2001

EXHIBIT A

**NEW YORK STATE DEPARTMENT OF MOTOR VEHICLES
STATEMENT OF ASSESSABLE EXPENSES
FOR THE FISCAL YEAR ENDED MARCH 31, 1998**

Direct Expenses

Administration		\$1,389,400
Operations		4,251,770
Transportation Safety		693,113
Insurance Services		6,122,388
Aid to Localities		<u>7,080</u>
Total Direct Expenses		\$12,463,751
Fringe Benefits and Indirect Costs (Note 5)		3,638,479
Adjustments:		
Audit Adjustments (Note 6)	\$562,024	
Prior Year Company Adjustments (Note 7)	<u>9,129</u>	
Total Adjustments		<u>571,153</u>
Gross Assessable Expenses		\$16,673,383
Less:		
Fees Paid by Self-Insurers (Note 8)	\$105,123	
Bonded Vehicles (Note 8)	<u>2,451</u>	
		<u>(107,574)</u>
Net Assessable Expenses		<u>\$16,565,809</u>

The accompanying notes are an integral part of the Statement.

Notes to Statement of Assessable Expenses

1. Department Operations

The New York State Department of Motor Vehicles (Department) is charged with enhancing traffic safety, providing consumer protection and information services, and assisting other government agencies to achieve their missions. More specifically, the Department licenses motor vehicle operators, registers motorized vehicles, issues license plates, and promotes traffic safety through driver training programs and outreach efforts. The Department collects fees and generates non-tax revenues to support these objectives. To help the Department achieve these objectives, the Legislature enacted the Motor Vehicle Financial Security Act (Article 6) and the Motor Vehicle Safety Responsibility Act (Article 7). These Acts help ensure that the operators of motor vehicles driven in New York possess adequate insurance coverage to compensate those persons they might injure, or whose property they might damage, as a result of an accident.

During the audit period, Department activities were segregated into five major program areas: Administration, Operations, Transportation Safety, Insurance Services, and Aid to Localities. The responsibilities of each program area are as follows:

Administration

The Department's Administration Program provides overall agency direction and support services, and includes the Commissioner's Office, the Communications Office, Fiscal Management, and Human Resources. This program also includes the Motor Vehicle Appeals Board, which is responsible for hearing appeals from motorists and motor vehicle-regulated businesses whose licenses, registrations, or permits have been revoked, suspended, or denied by the Department, or who have been convicted of moving traffic violations.

Operations

The Operations Program is responsible for the operation of the Department's regional offices and for providing efficient and courteous customer service including: issuing licenses, registrations, and permits; administering vision and driver examinations; and verifying vehicle title and insurance status.

Transportation Safety

The Department's Transportation Safety Program is responsible for enhancing transportation safety through the licensing, education, and monitoring of vehicle operators and businesses involved in the selling, repair, and inspection of motor vehicle.

Insurance Services

The Department's Insurance Services Program is responsible for ensuring vehicle owner compliance with mandated liability insurance coverage for registered vehicles.

Aid to Localities

The Department's Aid to Localities Program reimburses certain counties and municipalities for providing services similar to those available from the Department's regional offices.

2. Cost Recovery Methods

Article 6, Section 317, and Article 7, Section 363, of New York State's Vehicle and Traffic Law (Law) stipulate 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 (Security Act) and the Motor Vehicle Safety Responsibility Act (Responsibility Act). Once the amount of such administrative expenses is determined, the Commissioner assesses providers of automobile-related liability (bodily injury) insurance a pro-rata share of the expenses based on their respective premiums written in this insurance line. Assessable Department expenses include personal service costs, maintenance and operations, retirement contributions, workers' compensation premiums, real estate rental costs, and all other direct and indirect costs. Fees paid by self-insurers and for bonded vehicles under Sections 316 and 370 of the Law are to be applied toward reducing the assessment.

3. Basis of Accounting

The Statement is prepared on the cash basis of accounting; consequently, revenues are recognized when received, and expenditures are recognized when paid.

4. Accounting Records

The direct expenses, indirect costs, adjustments, and offsetting fees used to compile the Statement are based on the financial records maintained by the Department, and are in agreement with those maintained by the Office of the State Comptroller.

5. Fringe Benefits and Indirect Costs

The fringe benefit and indirect cost recovery rates used by the Department are determined by the Division of the Budget and are applied to personal service costs only. For the fiscal year ended March 31, 1998, the fringe benefit rate was 32.65% and the indirect cost recovery rate was 4.64%.

Fringe Benefit Costs (\$9,757,251 @ 32.65%)	\$3,185,743
Indirect Costs (\$9,757,251 @ 4.64%)	<u>452,736</u>
Total	<u>\$3,638,479</u>

6. Audit Adjustments

In 1998, the Office of the State Comptroller reviewed the Department's assessable expenses for the fiscal years ended March 31, 1996 and March 31, 1997 (Report 97-S-47). The audit team identified assessable expenses that were not included in the corresponding years' Statement, resulting in an understatement of the net assessable expenses for both fiscal years. The Department has chosen to include these amounts in the assessable expenses for the fiscal year ended March 31, 1998 rather than bill the insurance carriers for the prior years. The understated amounts are as follows:

Fiscal Year Ended:	
March 31, 1996	\$251,534
March 31, 1997	<u>310,490</u>
Total Understatement	<u>\$562,024</u>

7. Prior Year Company Adjustments

Department staff adjust assessable expenses on active insurers for insurance companies that have gone out of business without paying their share of the assessment for the prior year. The unpaid balance for these companies is added to the current year's assessment. For the fiscal year ended March 31, 1998, these prior year company adjustments were \$9,129.

8. Offsetting Cash Receipts

In accordance with Sections 316 and 370 of the Vehicle and Traffic Law, certain motor vehicle registrants (self-insured and bonded) are required to pay an annual fee to the Department. The statutes mandate that these fees offset any Articles 6 and 7 assessments on insurance carriers.

9. Comparative Analysis of Assessable Expenses (Supporting Schedule 1)

Administration

For the fiscal year ended March 31, 1997, the amount reported for Administration (\$1,237,143) included two separate programs: Administration (\$1,220,194) and Policy and Program Development (\$16,949). Beginning with the fiscal year ended March 31, 1998, these two programs were merged. For the purposes of this comparative statement, individual amounts for these programs for the fiscal year ended March 31, 1997 are combined.

The assessable expenses for Administration during the current operating period increased as a result of the Department's increased legislative appropriation.

Operations

The assessable expenses for Operations increased during the current reporting period due to the reclassification of Transportation Safety expenses, as well as a revised methodology for charging district office expenses.

Transportation Safety

For the fiscal year ended March 31, 1997, the amount reported for Transportation Safety (\$1,262,589) includes two separate programs: Transportation Safety (\$1,258,747), and Traffic Safety Law Enforcement (\$3,842). Beginning with the fiscal year ended March 31, 1998, these two programs were merged. For the purposes of this comparative statement, individual amounts for these programs for the fiscal year ended March 31, 1997 are combined.

Due to the reclassification of Transportation Safety costs to Operations, this reporting category is significantly decreased for the current reporting period.

Insurance

The increased legislative appropriation for the Department has a direct effect on the amount of insurance services provided, and the corresponding costs.

Aid to Localities

For the fiscal year ended March 31, 1997, the State appropriated over \$1.7 million to the Department to provide grants to localities. For the fiscal year ended March 31, 1998, the State and localities negotiated a new reimbursement methodology to better approximate costs. As a result, the State no longer appropriated monies for these grants.



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

**Comptroller's Report on the Department of Motor Vehicles' Compliance with
Selected Statutory Requirements Applicable to Articles 6 and 7 Assessable Expenses**

New York State Department of Motor Vehicles

We have audited the accompanying Statement of Assessable Expenses for the fiscal year ended March 31, 1998.

In connection with our audit of the Statement, we selected certain transactions applicable to compliance with Article 6, Section 317, and Article 7, Section 363 of the Vehicle and Traffic Law. These sections address the mandated obligation of certain insurance carriers to finance Department costs incurred in administering the Financial Security and Safety Responsibility Acts. These sections also address the Department's requirement to prepare a final assessment of annual expenses "as soon as practical after April first of the subsequent year." The purpose for requiring a prompt final assessment is to help ensure the prompt recovery of costs.

The procedures we followed to assess Department compliance were substantially less than those performed during an audit, the objective of which is to express an opinion on Department compliance with these requirements. Accordingly, we do not express such an opinion.

Regarding the assessment methodology, with respect to the items tested, we found no material instances of noncompliance with the requirements relating to the annual assessment of costs on insurance carriers. With respect to the items not tested, nothing came to our attention that caused us to believe that the Department had not complied, in all material respects, with those requirements and would not be in compliance with the law if they continue to apply the same methodology(s). However, we found that Department officials are not preparing their final assessments in a timely manner. For example, the Department's final assessment for the fiscal year ended March 31, 1999 should have been prepared within a reasonable period of time after April 1, 1999. As of January 12, 2001, 21 months later, this assessment had not been prepared. Thus, the mandated State Comptroller's audit, as well as any corrective billings that may be warranted to adjust prior year estimates, will be delayed.

Appendix A

This report is intended for the information and use of Department management and the State of New York. However, this report is a matter of public record and its distribution is not limited.

Office of the State Comptroller

Date: March 5, 2001

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Comptroller's Report on Internal Controls Applicable to Articles 6 and 7 Assessable Expenses

New York State Department of Motor Vehicles

In planning and performing our audit of the Statement of Assessable Expenses for the fiscal year ended March 31, 1998, we considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the Statement, and not to provide assurance on the Department's internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters therein that might be a material weakness under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the Statement being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We conveyed the results of our review of the Department's internal control structure in a separate letter to Department management, which includes a description of management's responsibility to establish and maintain the Department's internal control structure, and the objectives of, and inherent limitations in, such a structure. The specific internal control areas relate to the Department's procedures for calculating and collecting assessments, the Department's treatment of refunds, and the assignment of cost centers.

The letter noted above is intended solely for the information and use of Department management and others within the organization.

Office of the State Comptroller
Date: March 5, 2001

Appendix B

**NEW YORK STATE DEPARTMENT OF MOTOR VEHICLES
AUDIT OF THE DEPARTMENT'S ASSESSABLE EXPENSES FOR THE
ADMINISTRATION OF THE FINANCIAL SECURITY AND SAFETY
RESPONSIBILITY ACTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1998**

Supplementary Information

Supporting Schedule 1

Appendix C

**NEW YORK STATE DEPARTMENT OF MOTOR VEHICLES
COMPARATIVE ANALYSIS OF ASSESSABLE EXPENSES
FOR THE FISCAL YEARS ENDED MARCH 31, 1997 AND MARCH 31, 1998**

	<u>1997-98</u>	(unaudited) <u>1996-97</u>	<u>% Variance</u>
<u>Direct Expenses</u>			
Administration	\$1,389,400	\$1,237,143	12.31%
Operations	4,251,770	3,281,209	29.58
Transportation Safety	693,113	1,262,589	(45.10)
Insurance	6,122,388	5,464,844	12.03
Aid to Localities	<u>7,080</u>	<u>84,075</u>	(91.58)
Total Direct Expenses	\$12,463,751	\$11,329,860	10.01
Fringe Benefits and Indirect Expenses	3,638,479	3,337,035	9.03
Adjustments	<u>571,153</u>	<u>(5,980)</u>	N/A
Gross Assessable Expenses	\$16,673,383	\$14,660,915	13.73
Less:			
Fees Paid by Self-Insurers	105,123	115,395	(8.90)
Bonded Vehicles	<u>2,451</u>	<u>2,486</u>	(1.41)
Net Assessable Expenses	<u>\$16,565,809</u>	<u>\$14,543,034</u>	13.91

See Note 9 to the Statement for explanations of the significant variances.

See OSC Report 98-D-8, issued July 10, 1998, for Comptroller's Review of the Department's Net Assessable Expenses for the period ended March 31, 1997.