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NEW YORK STATE COMPTROLLER

DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY

NEW YORK STATE DEPARTMENT OF MOTOR VEHICLES

INTERNAL CONTROLS OVER REVENUE COLLECTION

Report 2007-S-15

AUDIT OBJECTIVE

Our objective was to determine whether the New York State Department of Motor Vehicles (Department) implemented sound internal controls over its revenue collection operations to ensure proper accountability over funds received.

AUDIT RESULTS - SUMMARY

We reviewed internal controls at all of the Department's Central Office units that collect revenues as well as a sample of the various field offices (Department and county) that also collect revenues. We found the Department needs to strengthen internal controls by adhering to established policies and procedures and by implementing additional controls.

We identified control weaknesses at some of the Central Office units and field offices we visited. Necessary improvements include having two people present when cash is counted, separating duties, maintaining accountability over funds received, depositing funds timely, and testing for counterfeit bills. In addition, some of the Central Office units and field offices needed to improve security over receipts by changing safe combinations more frequently and keeping cash and checks in locked areas during the day. We also found that the Department's Audit Services Unit has devoted considerable effort to reviewing internal controls at the various field offices, but needs to consider devoting more audit focus to the Central Office units.

In addition, we identified the opportunity to improve controls over change funds at some of the field offices. (Change funds are used for exchanging large bills for smaller ones and for providing start-up funds for each cashier at the beginning of a shift.) We also identified discrepancies between the records maintained by the Department and those maintained by the Office of the State Comptroller with respect to the status of bank accounts. The Department also needs to expedite the appointment of an Internal Control Officer who is independent of the Internal Audit Services Unit.

Our audit report contains eight recommendations for the Department to improve its accountability over revenue receipts. Department officials replied to our draft report that action has been taken to address all of our recommendations.

This report, dated April 25, 2008, is available on our website at: http://www.osc.state.ny.us.
Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
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BACKGROUND

The New York State Department of Motor Vehicles (Department) receives revenues from a variety of activities, including car registrations, driver licenses, registrations for various businesses such as automobile dealers and inspection stations, and searches of Department records. These revenues are used to support the State's general fund and other designated funds. The Department also collects fines and surcharges on non-criminal moving violations at Traffic Violations Bureau (TVB) offices in Suffolk County and the cities of New York, Buffalo, Rochester, and Albany. Localities where violations occur receive a portion of these fines.

Fees are collected at 18 different Central Office units, 27 district offices (operated by the Department), and 102 county offices (operated by County Clerks as agents for the

Department). Fines and surcharges are collected at 11 TVB offices. In calendar year 2006, the Department reported that it collected a total of about $1.3 billion in revenue from the various units and offices, as follows: Central Office units ($264 million), district offices ($707 million), county offices ($229 million), and TVB offices ($129 million). Each collecting unit or office deposits its revenues into a separate bank account. The revenues are subsequently collected by the Office of the State Comptroller's Cash Management Unit.

AUDIT FINDINGS AND RECOMMENDATIONS

Internal Controls over Receipts

We visited 6 district offices, 8 county offices, 3 TVB offices, and all 18 Central Office units that receive revenue, and found that the Department needs to improve its internal controls over receipts.

Controls over Receipts

According to the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act) as revised in 1999, State agencies are responsible for establishing and maintaining an effective system of internal controls. General requirements for controls and safeguards over cash receipts are contained in the Standards for Internal Controls in New York State Government (Standards) issued by the Office of the State Comptroller. Agency managers are responsible for incorporating the control systems and safeguards into their agency procedures. We identified internal control weaknesses over Department operations that increase the risk that funds could be lost or stolen; or would hinder Department's ability, if a discrepancy occurred, to trace the person responsible for the funds.

The Department's procedures require, among other things, having two people present when cash is counted, separating incompatible duties, maintaining accountability over funds received, depositing funds in a timely manner, and testing for counterfeit bills. We observed noncompliance with Department procedures, as well as the need to implement additional controls.

It is important to separate duties so that the work of one employee acts as a check on the work of another. In addition, two people should be present during the counting of cash. At one TVB office, both the change fund (used for exchanging large bills for smaller ones and for providing start-up funds for each cashier at the beginning of a shift) and the day's deposit were counted by one person. At two district offices, a second employee was present when the deposit was prepared, but this person performed other tasks and did not actively check the accuracy of the deposit preparation. At one county office, the supervisor prepared cash drawers at the start of the day without another employee present. Furthermore, the cashiers at this office did not count their cash drawers before opening for business. Cashiers in one Central Office unit did not verify the amount in their cash drawers at the start of business.

We also found that certain Central Office units did not establish adequate accountability over funds received. In one unit, numerous staff used the same register and left the key in the register, which can be opened easily. In another unit, cash was handled by numerous staff prior to being accounted for and logged in the cash book. In addition, two units did not endorse checks promptly upon receipt, which would limit their vulnerability to theft before being processed and deposited. Furthermore, the Department's procedures need to be strengthened because they do not require the use of signed transmittal forms when revenue is transferred between staff. Such procedures are important to the maintenance of accountability over the funds. In three of the eight county offices we visited, employees did not prepare and sign such written transmittals.

Funds should be deposited in a timely manner. We found that most of the 35 offices we visited made deposits within 3 business days. However, we noted two Central Office units took eight days to deposit revenue from the time of receipt. Another Central Office unit took 15 days to deposit revenue, and we learned that checks received by this unit from a once-a-year registration process in February 2007 were not processed and deposited for more than a month. In addition, 1 district office and 3 of the 8 county offices did not use counterfeit detection pens to check large bills, as required.

In responding to our preliminary audit findings, Department officials stated that staffing levels at some offices may have an impact on their ability to have two people present when counting cash. In addition, Department officials stated they will follow up with offices that are not complying with procedures, and will issue reminders to all units and offices receiving revenue to adhere to the appropriate procedures. Department officials also agreed to evaluate their cash-handling procedures and modify them to reflect areas not currently addressed, such as the use of written transmittals.

In addition, the Department's Audit Services Unit should use the results of our audit to assess the need for additional audit focus on the Central Office. The Audit Services Unit issued 74 audit reports of district and county offices from April 1, 2005, through March 27, 2007. Of the 74 audits, 64 identified internal control weaknesses similar to those we found at the district and county offices. However, the most recent audit of a Central Office unit was performed in 2004. Department officials explained that the Audit Services Unit is responsible for auditing Department operations as well as more than 10,000 entities, such as businesses that are licensed or regulated by the Department. Officials further stated that audit coverage is determined by legal requirements, executive input, and risks in various entities' operations. In addition, Department officials stated they have lost seven auditors (30 percent) between 2001 and 2004 and have not been able to replace them. While we acknowledge that the Department has competing priorities, it should consider the results of our audit in deciding where to focus its audit resources.

Security over Receipts

The Department requires that a safe's combination be changed when a supervisor has a leave of absence of six months or more, or at the end of a supervisor's employment in the Department or a particular office. As a precaution, the Department's policy recommends that a safe's combination be changed annually. The policy also states that a safe should not be left unlocked. During our office visits, we observed the following security issues:

- One district office has not changed the combination of its safe in more than two years. Moreover, three supervisors had left the office over the two-year period.

- The safes were not locked at the time of our visits to three Central Office units, three district offices, one county office, and one TVB office.

- For 6 of 18 Central Office units, the cash and checks collected were kept in either unlocked cabinets or on desks during the day before being locked up at night. One unit did not endorse checks upon receipt, therefore leaving the funds at greater risk.

- Cash registers were not shut down or locked when left unattended by cashiers in one Central Office unit, and the keys were kept in them. The cash drawers can be opened easily by anyone.

Three district offices and one TVB office do not have panic buttons for cashiers. In addition, one district office does not have security cameras or security guards in the area where cash is handled. While these are not Department requirements, security would be improved by making such modifications.

Department officials agreed with our observations and agreed to take corrective action. However, they responded that offices may install panic buttons only when the offices are remodeled.

Controls over Change Funds

Change funds are to be counted in the morning and at the end of the day, and a record of the counts should be maintained. We found that for three of the eight county offices we visited, no log was kept to indicate when the change fund was counted.

We also noted that one district office was closed in July 2005 for environmental reasons, and that its $6,000 change fund was transferred to another district office until a new office location could be found. A record of the change fund was maintained and the amount was periodically counted by the responsible officials. However, the fund was still on hand during our site visit in June 2007. Division officials explained that finding an alternative location for the closed office was taking longer than expected. As a result of our audit, Department officials transferred the change fund to the Central Office in August 2007.

Inventory of Bank Accounts

The Department is required by law to obtain prior approval by the State Comptroller for all bank accounts. Approval is mandatory because the State Comptroller arranges for payment of banking services and collateralization of the accounts. In addition, the Department must notify the State Comptroller within ten days of closing a State bank account. When we compared the bank account listing of the Office of the State Comptroller with the Department's listing of open bank accounts, we found discrepancies.

For example, two accounts have been removed from the Department's list of active accounts but remain on the Office of the State Comptroller's list of active accounts. In addition, the Department's list of active accounts included two that have been removed from the Office of the State Comptroller's list; one had been closed, while the other had been inactive since April 2006. Two other accounts on the Department's list had incorrect account numbers.

We also noted that the two previously-noted bank accounts for the closed district office are shown by both the Department and the Office of the State Comptroller as being active. These two accounts had a total balance of $953 as of July 31, 2007.

Department officials responded that they have updated their active bank account listing and will continue to work with the Office of the State Comptroller as required when establishing and closing bank accounts. They also indicated they are in the process of closing the two bank accounts containing the $953 balance.

Internal Control Officer

The Act requires each agency to establish an Internal Control Officer who is responsible for both implementing and reviewing the organization's internal control efforts. The Act does not specifically preclude an agency's internal audit director from acting as the Internal Control Officer. However, the New York State Internal Control Task Force issued a guide in September 2006, which states that the Internal Control Officer's duties are those of a management function and require management decisions regarding the overall design and implementation of the internal control system. As such, the role of the internal auditor is generally incompatible with the role of the Internal Control Officer.

The Department's Director of Audit Services is the Internal Control Officer. The Department's internal control assessment documents for our audit period state that the Department is working to identify an Internal Control Officer separate from the Director of Audit Services. However, this has not occurred as of September 2007 even though the issue was identified three years earlier. The Department should expedite the appointment of an Internal Control Officer who is not the Director of Audit Services.

Recommendations

1. Evaluate written procedures for controls over receipt of revenue and modify them as necessary to address internal control weaknesses, including the use of written transmittal forms when revenue is transferred between staff.

2. Issue periodic reminders of cash control procedures and monitor cash collection sites to determine, among other things, whether there is adequate control and security over receipts and change funds.

3. Ensure that two people are available and actively participate in cash counting and verification activities.

4. Assess and document the need for greater audit focus on internal control weaknesses at the Central Office units.

5. Monitor and enforce compliance with the Department's policy on changing safe combinations.

6. Close the bank accounts for the district office that is no longer open, and retain documentation of the closure.

7. Resolve the discrepancies in the bank account information maintained by the Department and the Office of the State Comptroller, and keep an up-to-date bank account list.

8. Expedite the appointment of an Internal Control Officer independent of the Audit Services Unit.

AUDIT SCOPE AND METHODOLOGY

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited the Department of Motor Vehicles' internal controls over revenue collection operations for the period April 1, 2006, through July 31, 2007. To accomplish our objective, we met with Department officials to gain an understanding of their practices for receiving and recording revenue. In addition, we interviewed staff from the Office of the State Comptroller's Cash Management Unit to determine the requirements for State bank accounts.

Between April 16, 2007, and July 10, 2007, we visited a judgmental sample of 3 of 11 TVB offices, 6 of 27 district offices, and 8 of 102 county offices to determine their practices for receiving, recording, and reconciling revenue to the cash deposits. The TVB offices were selected based on location and volume of transactions. The district and county offices were selected based on geographic location, as well as the Audit Services Unit's audit coverage and results. In addition, some county offices were selected because they had a mobile unit. We observed the offices' cashing out procedures at the end of the day and the preparation of the bank deposit. We also traced the day's deposit to the bank statement to determine the number of days it took to deposit the revenue into the bank account. We also performed these same tests for the 18 Central Office units that receive revenue. We reviewed the 74 internal audit reports issued by the Audit Services Unit for the period April 1, 2005, through March 27, 2007, for district and county offices and the last available internal audit report for the Central Office units. Just one internal audit report in 2004 had been issued for one of the Central Office's units. We also reviewed the Department's internal control assessments for our audit period.

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

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1, of the State Constitution and Article II, Section 8, of the State Finance Law.

REPORTING REQUIREMENTS

We provided Department officials with a draft copy of this report for their review and comment. Their comments were considered in preparing this final report, and are included as Appendix A.

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 therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include Carmen Maldonado, Robert Mehrhoff, Stephen Goss, Anthony Carbonelli, Deb Spaulding, Joe Smith, Kelly Engel, Emily Wood, Jay Gwak, Nancy Zgaljardic, Sarah J. Miller, Phillip Kwok, and Paul Bachman.

APPENDIX A - AUDITEE RESPONSE

NEW YORK STATE
DEPARTMENT OF MOTOR VEHICLES
AUDIT SERVICES

DAVID J. SWARTS
Commissioner

EDWARD J. WADE
Director of Audit Services

March 17, 2008

Ms. Carmen Maldonado, Audit Director
Office of the State Comptroller
123 William Street, 21st Floor
New York, NY 10038

Re: 2007-S-15 Draft Audit Report

Dear Ms. Maldonado:

This letter is in reference to the New York State Comptroller's draft audit report which addresses the Department of Motor Vehicles' internal controls over revenue collections.

Please note the following concerning the audit recommendations:

1. Evaluate written procedures for controls over receipt of revenue and modify them as necessary to address internal control weaknesses including but not limited to the use of written transmittal forms when revenue is transferred between staff.
   Response: The Department will evaluate the written procedures over the receipt of revenue and make any necessary modifications.

2. Periodically issue reminders of cash control procedures and monitor cash collections sites to determine, among other things, whether there is adequate control and security over receipts and change funds.
   Response: DMV's Executive Deputy Commissioner issued a reminder of appropriate cash control procedures to County Offices, Traffic Violation Bureaus, District Offices and Central Offices in January 2008 and will continue to do so on a periodic basis.

3. Ensure that two people are available and actively participate in cash counting and verification activities.
   Response: This control was included in the reminder notice that was issued to all offices in January 2008, and Audit Services will continue to monitor for compliance through periodic audits. However, due to staffing constraints in the smallest offices this may continue to be an issue.

4. Assess and document the need for greater audit focus on internal control weaknesses at the Central Office units.
   Response: Audit Services will factor this recommendation into their audit plan for the next fiscal year, and ensuing years.

5. Monitor and enforce compliance with the Department's policy on changing safe combinations.
   Response: This control was included in the reminder notice that was issued to all offices in January 2008, and Audit Services will continue to monitor for compliance through periodic audits.

6. Close the bank accounts for the district office that is no longer open, and retain documentation of the closure.
   Response: The request to close the bank accounts was submitted to the Office of the State Comptroller in August 2007. On November 13, 2007, DMV's Revenue Accounting unit received confirmation from the bank that the accounts were closed.

7. Resolve the discrepancies in the bank account information maintained by the Department and the Office of the State Comptroller, and keep an up to date bank account list.
   Response: The bank account information was updated during the audit and was provided to the OSC auditors that were on-site. The information will be maintained and updated as appropriate.

8. Expedite the appointment of an Internal Control Officer independent of the Audit Services group.
   Response: A new Internal Control Office, independent of Audit Services, was appointed 2/21/08.

We will continue to look for improvement opportunities such as these and always welcome a chance to better serve the citizens of this State. If you have any questions concerning this matter, please contact me at (518) 474-0881.

Sincerely,

Edward J. Wade

Edward J. Wade
Director