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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

May 4, 2012

Ms. Barbara J. Fiala
Commissioner
Department of Motor Vehicles
6 Empire State Plaza
Albany, NY 12228

Re: Report 2011-F-26

Dear Ms. Fiala:

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, we have followed up on the actions taken by officials of the Department of Motor Vehicles (Department), to implement the recommendations contained in our audit report, *Revenue Collection and Reporting* (Report 2007-S-52).

Background, Scope and Objective

The Department makes more than 140 different types of collections including those for vehicle registrations, vehicle titles, driver licenses, automobile dealer registrations, automobile inspection station registrations, and custom license plates. The Department also collects certain fines and surcharges on non-criminal moving violations.

The Department collects this revenue at 18 different Central Office units, 31 district offices, 105 county offices (operated by County Clerks as agents for the Department), and 11 Traffic Violations Bureau offices. The Traffic Violations Bureau offices are responsible for collecting traffic fines in one county (Suffolk) and three cities (New York City, Buffalo, and Rochester). In the State's other counties and cities, traffic fines are collected by local courts.

The Department records its revenue transactions in five different electronic systems, as well as manually. Vehicle registrations and driver licenses are recorded on the Department's main computerized transaction-processing system. Traffic fines and surcharges at the Traffic Violations Bureau offices are recorded on a separate electronic system. Special revenues are recorded on one of three other electronic systems.

For the State fiscal year ended March 31, 2011, the Department reported that it collected a total of over \$1.8 billion in revenues. The Central Office units collected \$550 million, the district offices \$712 million, the county offices \$435 million, and the Traffic Violations Bureau offices \$162 million. Each office is responsible for depositing its revenues into a designated local bank account, and reporting the revenues to the Department's Revenue Accounting Unit. The

Revenue Accounting Unit is responsible for ensuring that all revenues are accounted for and reported properly.

The Office of the State Comptroller (OSC) transfers the revenues electronically from the local bank accounts into a centralized account that it manages. OSC's Cash Management Unit is responsible for collecting revenues from their sources and disbursing the funds in accordance with requirements and needs.

Each month, the Department's Revenue Accounting Unit prepares a report specifying how the Department's revenue collections are to be distributed. The Revenue Accounting Unit submits the monthly report, known as a certification, to OSC. OSC is then responsible for ensuring that the funds are recorded properly and are disposed of pursuant to law.

Our initial audit report, which was issued on June 19, 2008, examined whether the Department had taken all the steps it could to account for the revenue it collects and to provide accurate and timely reports of accountability over the receipts. We found that the Department's revenue collecting offices had established adequate accountability over their collections and were reporting those collections accurately to the Revenue Accountability Unit. We also found that the Department's 2007 monthly revenue certifications were accurate and timely with the exception of one significantly late submission. However, we did identify certain weaknesses in the Department's practices that could lead to delays in the distribution of revenues. To address this, we concluded that the Department should reduce delays in depositing collections, use available technology to expedite its processing of checks, determine whether its revenue-reporting systems can be consolidated, and could combine its local bank accounts. The objective of our follow-up was to assess the extent of implementation as of March 28, 2012 of the nine recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Department officials have made some progress in correcting some of the problems we identified. However, additional improvements are needed. Of the nine prior audit recommendations, three were implemented, four were partially implemented, and two were not implemented.

Follow-up Observations

Recommendation 1

Take steps to eliminate deposit delays such as working with armored car services to complete the deposits on the same day as the pick-up.

Status - Implemented

Agency Action - The Department implemented a Remote Deposit Capture (RDC) system at the Utica Processing Center as well as the Central Office Revenue Accounting Unit to speed up the processing of checks. The RDC scans checks and deposits them into the Department's account without the need for armored car transport. The Department plans

to use RDCs at district offices and some regional TVB offices. The Department is also working to install "smart safes" in its offices. Smart safes accept currency and coins, counting the money as it is placed in the safe and notifying the bank of the deposit amount. The bank sends an armored car to retrieve the money from the safe, but the deposit is recorded at the time the money is placed in the safe. Department management plans to have the staff count the cash prior to putting it in the safe, to ensure that the safe totals are correct. A pilot program is planned for spring of 2012. Our review at seven offices: four County Offices (Oneida, Fulton, Ulster and Broome), two District Offices (North Syracuse and Queens), and a Traffic Violations Bureau (Coney Island) found that all seven offices made their daily deposits the next business day.

Recommendation 2

Work with OSC to develop and implement revenue-reporting procedures that would minimize OSC's need to reconcile differences between the Department's reported revenue collections and the amounts deposited in the Department's local bank accounts.

Status - Partially Implemented

Agency Action - Department staff have worked with OSC to develop and implement revenue-reporting procedures that would minimize OSC's need to reconcile differences between the Department's reported revenues and the amounts deposited in the Department's local bank accounts. As a result, the Department has made the certification report more detailed and has improved the timeliness of the report. Other actions being taken by the Department to improve the timeliness of deposits and collection of checks are also helping to reduce the timing differences as noted in recommendations 1 and 3. However, there continue to be some timing issues between the certification and the bank deposits.

Recommendation 3

Implement a Remote Deposit Capture system to improve the timeliness of deposits for checks.

Status - Implemented

Agency Action - The Department implemented a RDC system at the Revenue Accounting Unit in the Albany Central Office (January 2010) and at the Utica Processing Center (June 2011). The deposits are recognized by the bank the same day they are processed through the RDC. We visited the Utica Processing Center to observe the RDC. We also tested whether five batches of checks were processed accurately and found that they were. RDCs are planned for other offices when the smart safes are piloted, though the dates and locations have not been finalized as of yet.

Recommendation 4

Instruct county offices to follow the required procedures when bad checks are received, and monitor the offices to ensure they do so.

Status - Partially Implemented

Agency Action - The Department provided all county offices with a copy of the policy regarding the processing of bad checks. All four of the county offices we visited were aware of the policy. The Department's Internal Audit Unit audits county offices every three years, including examining whether office staff are aware of and comply with the dishonored check policy. Internal Audit officials told us they do not have the staff resources to more frequently. In addition, officials indicated they cannot monitor county office compliance with bad check procedures because central office is not aware of bad checks until after county offices attempt collection.

Recommendation 5

Make a formal assessment of the costs and benefits of consolidating the existing revenue-reporting systems into a single computerized system.

Status - Not Implemented

Agency Action - The Department did not formally assess the costs and benefits of consolidating its various revenue reporting systems into a single computerized system. Department officials told us the new State Financial System was being implemented subsequent to the initial audit, and they expected it would impact their revenue recording and reporting. Therefore, they did not believe it was reasonable to implement a new revenue system that could become obsolete. The Statewide Financial System began operation in April 2012, but the revenue module is not yet operational. Nevertheless, Department officials expect it will consolidate their revenue recording once the revenue module is released. In the meantime, the Department has begun a payment modernization project to centralize all fees collected, beginning with the WISE system. This is considered the first step to consolidate the revenue reporting systems.

Recommendation 6

Reconcile and report revenue by the type of system (e.g. WISE, Glory, etc.) used to account for each type of revenue.

Status - Not Implemented

Agency Action - The Department has not changed its disagreement since providing its 90-day response to the original report.

Recommendation 7

Ensure that all offices report their revenue collections to the Revenue Accounting Unit on a daily basis.

Status - Partially Implemented

Agency Action - The Department has 18 Central Office Units, of which 11 should make daily deposits and report that information to the RAU. On December 2, 2011, we found that only six of the 11 units made deposits of the December 1, 2011 revenue collections.

Recommendation 8

Develop and implement complete written procedures for revenue recording and reconciliation at all Central Office units that receive revenue.

Status - Implemented

Agency Action - The Department issued a policy on internal controls over revenue collection and reconciliation to all managers and supervisors in March 2009. The policy set rules for collection and handling of funds to provide reasonable assurance that incoming receipts would be protected from loss or theft. Additionally, a policy on audit procedures was revised to include Central Office.

Recommendation 9

Consolidate the Department's various local bank accounts.

Status - Partially Implemented

Agency Action - The Department consolidated six bank accounts between April 2008 and January 2009. The original audit identified 32 bank accounts at one institution, each of which had transfer and monthly maintenance fees. As of January 19, 2012, 30 of these 32 accounts were still open. We estimate the cost savings for consolidating the remaining accounts to be at least \$16,500 annually. The Department acknowledges that there may be additional opportunities for consolidation and plans to explore them as time and resources permit.

Major contributors to this report were Steve Goss, Jennifer Paperman, Brandon Ogden, Gayle Clas, and Jeffrey Dormond.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Department for the courtesies and cooperation extended to our auditors during this follow-up review.

Very truly yours,

Carmen Maldonado
Audit Director

cc. J. Potera, Director of Internal Audit
T. Lukacs, Division of the Budget