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OFFICE OF THE STATE COMPTROLLER

September 20, 2001

Mr. Raymond P. Martinez
Commissioner
Department of Motor Vehicles
Swan Street Building
Empire State Plaza
Albany, NY 12228

Re: Report 2001-F-24

Dear Mr. Martinez:

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 reviewed the actions taken by officials of the New York State Department of Motor Vehicles (DMV) as of July 9, 2001 to implement the recommendations contained in our prior audit report, *Uninsured Vehicles* (Report 98-S-4). Our prior report, issued April 14, 2000, addressed the DMV's process for identifying uninsured vehicles and registrants and insurers on a timely basis. That audit covered the period January 1, 1997 through May 29, 1998.

Background

The State's Vehicle and Traffic Law (Law) requires all motor vehicles registered in the State to be accompanied by proof of liability insurance, which is to be maintained throughout the registration period. According to this Law, owners run the risk of fines and possible imprisonment if a police officer finds them operating an uninsured vehicle. Operation of the insurance enforcement program is the responsibility of the DMV's Insurance Service Bureau.

The State Insurance Department (SID) requires the licensing of all insurance companies that intend to sell vehicle insurance policies in New York State. The Law requires insurance companies to notify DMV not later than 30 days after the effective date of a cancellation or other termination of an insurance policy. If the company does not comply with the Law, DMV has the authority to refer it to SID for sanction.

Summary Conclusions

Our prior audit found that DMV was not taking all necessary actions to identify the owners of uninsured vehicles and to follow-up with them on a timely basis. DMV officials needed to implement procedures that would enable them to determine whether companies selling vehicle liability insurance to New York residents provided DMV accurate and timely data regarding terminated policies. We found that many companies were not reporting insurance terminations, and others often were reporting them late or inaccurately, compromising the ability of DMV and law enforcement officials who rely on DMV data to deal effectively and promptly with owners of uninsured vehicles.

In our follow-up review, we found DMV implemented a new Insurance Information and Enforcement System (IIES) pursuant to Chapter 678 of the Laws of 1997. Andersen Consulting designed and developed IIES in conjunction with DMV's IIES project team. IIES includes on-line reporting that employs electronic data interchange (EDI) between DMV and New York State auto insurers. This system began replacing the old system on January 3, 2000. However, we were advised that there are still shortcomings in accuracy and completeness of the data. This is partially due to some of the insurance companies who have not provided information to DMV. In addition, we have scheduled an audit of IIES.

Summary of Status of Prior Audit Recommendations

Of the seven prior audit recommendations, four were implemented, two were partially implemented and one is no longer applicable. Recommendation 5 in the draft report was deleted before it was issued as a final.

Follow-up Observations

Recommendation 1

Obtain from SID periodically a master list of all companies licensed to write vehicle liability insurance policies in New York State that also indicates which of those companies are actively writing policies. Then:

- *Compare this list with the names of companies that have reported terminations of coverage, and contact the remaining companies to determine their reasons for not reporting.*
- *Identify and issue a DMV identification number to any company licensed by SID to write automobile insurance that does not already have a number.*

Status – Implemented

Agency Action – The new IIES accomplishes the intent of this recommendation via a different protocol. All insurance companies wishing to issue automobile liability policies in New York are required to have electronic data transmission capability before they are assigned a 3-digit code by DMV. Therefore, no company will be able to issue an ID card for vehicle registration purposes before being

authorized to do business in New York. A company who establishes and tests electronic communications with DMV is then authorized to use the assigned 3-digit code and all subsequent communications are done via EDI.

Recommendation 2

Develop and implement written criteria for identifying insurance companies to be referred to SID for consideration of sanction or other actions, as deemed appropriate.

Status – Implemented

Agency Action – The Law and IIES have established specific time frames insurers are expected to follow to ensure prompt recording of information. To date, DMV has recommended about 100 insurers to SID for disciplinary action for failing to comply with IIES reporting regulations.

Recommendation 3

Redistribute the job functions of the single employee currently responsible for identifying and reporting noncompliant insurance companies to SID. At a minimum, implement adequate supervisory oversight and approval of the review and referral process.

Status – Partially implemented

Agency Action – The new IIES system does not rely on a single employee to monitor insurer reporting compliance. IIES provides DMV with informational reports to facilitate this monitoring process, and DMV has established a unit dedicated to this function. This unit is supervising DMV's insurer help hot line at the present time until all active insurers have completed their initial "load" [all vehicles insured in New York]. There are 26 insurers in New York that still need to load their vehicle insurance business into the IIES. This unit is expected to concentrate on insurer compliance issues later this year.

Recommendation 4

Develop a process for determining whether companies have properly reported vehicles they no longer insure. For example, consider surveying periodically the owners of vehicles (selected on a sample basis) of companies that have not submitted policy termination information to DMV over a specific time period, asking the owners to confirm and document that their vehicles were insured on a specific date.

Status – Partially implemented

Agency Action – The IIES has a program module designed to identify non-reporting insurers. These insurers may have gone out of business, have no activity to report or failed to properly report. This module is expected to be fully operational later this year.

Recommendation 5

Deleted for the final report.

Recommendation 6

Maintain logs that indicate when tapes of policy-termination data are received from insurance companies and when their contents are integrated into DMV registration files.

Status – No Longer Applicable

Agency Action – Transmissions in the new IIES system will be electronic, via electronic data interchange – not by tape. As a result, there is no need for this activity. However, under the new system, the date of submission is supposed to be reflected on each matched registration record.

Recommendation 7

Track the status of unusable termination submissions returned to the insurance companies for correction. Require the companies to return the corrected information on a timely basis.

Status – Implemented

Agency Action – A tracking number is assigned to the submissions in the IIES system and the system is designed to log dates.

Recommendation 8

Consider how the problems identified in the report can be addressed and incorporated into the new IIES design.

Status – Implemented

Agency Action – The IIES system is designed to implement the law requiring DMV to address problems related to uninsured vehicles.

The major contributor to this report was Dominick Vanacore.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We thank the management and staff of DMV for the courtesies and cooperation extended to our auditor during this review.

Very truly yours,

Carmen Maldonado
Audit Director

cc: Deirdre A. Taylor