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COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 6, 2015

Mr. J. David Sampson
Executive Deputy Commissioner
Department of Motor Vehicles
6 Empire State Plaza
Albany, NY 12228

Re: Controls Over Cash Advance
Accounts
Report 2014-S-65

Dear Mr. Sampson:

According 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 audited controls over cash advance accounts at the Department of Motor Vehicles (Department) for the period April 1, 2012 through February 25, 2015. The objectives of our audit were to determine if the Department has an ongoing need for its advance accounts, and if it has adequate controls to ensure the money is accounted for and used for appropriate business expenses.

Background

Section 115 of the State Finance Law authorizes the establishment of cash advance accounts, which State agencies may use for petty cash, travel, and other funding needs (e.g., confidential activities, patient or inmate work release, and resident allowances). Advances are issued from agency appropriations and the cash is transferred from the State Treasury to a local bank account for use by the agency. Cash advance accounts are reimbursed periodically by vouchers audited and approved by the Office of the State Comptroller for payment out of the State Treasury. Section 115 describes general criteria for establishing these accounts such as: what they can be used for; that all accounts shall be audited by the Comptroller before reimbursement is made to replenish the accounts; and that if the Comptroller at any time determines the cash advance accounts are being used for other than authorized purposes, the Comptroller will direct the responsible party to return the cash advanced to establish the account. As of December 31, 2014, the Department was authorized to have three advance accounts with a total value of \$346,750.

Results of Audit

We found the Department has designed effective internal controls over these accounts to ensure that funds are properly accounted for and payments are only made for appropriate business purposes. Our tests showed these controls have generally operated as intended. However, we also found that each of the Department's three cash advance accounts is overfunded in comparison to its apparent business needs. We therefore recommend the Department analyze its current usage and anticipated business needs, and return excess funds to the State Treasury.

Petty Cash Account

The Department's Petty Cash account is funded at \$300,000. The Department has allocated \$210,475 of this amount for use as change funds at 40 State-operated offices, some of which are equipped with automated service kiosks. We found all of these funds were properly accounted for. In addition, we reviewed transaction activity at these offices and concluded the amount of cash allocated to the change funds is reasonable.

The remaining balance of \$89,525 in the Petty Cash account is available for general use. However, during the 32-month period covered by our audit, the maximum use of this portion of petty cash in any one month was \$8,052, while the monthly average was just \$1,851. We therefore concluded there is not enough activity to justify keeping almost \$90,000 available for general use and that the account could likely be reduced significantly (perhaps by \$60,000 or more). Thus, Department management should analyze current usage activities, as well as anticipated business needs, and determine a more appropriate funding level for the Petty Cash account.

Confidential Account

The Confidential account is funded at \$36,750. Six regional offices hold \$18,000 of this money as cash on hand to fund their confidential investigative and enforcement activities. The other \$18,750 is held in a bank account and largely used only to replenish the cash on hand at the regional offices. During the 32-month period we examined, the average monthly usage was \$2,926, with a maximum monthly usage of \$6,262. Again, we determined that the limited payment activity did not justify keeping a balance of \$36,750 in the Confidential account. Rather, it appears this account could also be reduced significantly (perhaps by \$5,000 or more) and still be sufficient to meet historical needs. Department management should also analyze current and planned usage activities for this account and determine a more appropriate funding level.

Travel Advance Account

The Department's Travel Advance account is authorized for \$10,000, which is generally used to provide staff with funds to cover their business-related travel expenses in advance of a scheduled trip. In recent years, the need for actual cash advances to traveling employees has declined, in large part because business practices have evolved; the State's reimbursement systems have become more streamlined; and more options exist for direct State payment of travel costs, including direct billing and State travel cards. Not surprisingly then, we found the

Department's Travel Advance account was not used at all during many months of our audit period. In fact, only eight transactions totaling \$1,854 occurred between April 1, 2013 and November 31, 2014. As with the other accounts, Department management should examine its current business practices and anticipated needs to determine a more appropriate funding level, if any, for the Travel Advance account.

Recommendation

1. Reduce the amount of funds held in each advance account to more appropriate levels based on analysis of historical usage, current business practices, and anticipated future needs. Return excess funds to the State Treasury.

Audit Scope, Objectives, and Methodology

We audited the Department's controls over cash advance accounts for the period April 1, 2012 through February 25, 2015 to determine if the Department has a business need for all these accounts, and if the money is properly accounted for and used for appropriate business expenses.

To accomplish our objectives, we reviewed bank account statements, copies of cancelled and voided checks, and agency-prepared bank reconciliations, and interviewed Department personnel and administrators to obtain an understanding of internal controls relevant to cash advance accounts. In addition to reviewing agency-prepared bank reconciliations, we recalculated bank account reconciliations for the most recent months available. We also analyzed the check registers to identify a judgmental sample of transactions based on unexpected payees and amounts. We then we tested this sample for adherence to internal controls and appropriate use of funds.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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.

Reporting Requirements

We provided a draft version of this report to Department officials for their review and comment. Officials agreed with our recommendation and reported plans to significantly reduce the level of funds held in each account and to review spending needs annually. The Department's response is attached in its entirety at the end of this report.

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 recommendation contained herein and, if not implemented, the reasons why.

Major contributors to this report were Walter Irving, Bob Mainello, Lynn Freeman, Thierry Demoly, Jason Dessureault, and Matt Luther.

We wish to thank Department management and staff for the courtesies and cooperation they extended to our auditors during this review.

Sincerely,

John F. Buyce, CPA, CIA, CFE, CGFM
Audit Director

cc: Jannette Potera, Liaison

Agency Comments

J. DAVID SAMPSON
Executive Deputy Commissioner



(518) 474-0846

March 31, 2015

Mr. John Buyce
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Re: Report Controls over Cash Advance Accounts 2014-S-65

Dear Mr. Buyce:

This letter is in reference to the draft audit findings pursuant to the New York State Comptroller's audit of The New York State Department of Motor Vehicles controls over cash advance accounts. The Department reviewed the findings and generally agree with OSC's assessment that the accounts are currently overfunded.

As recommended, the Department has analyzed current usage activities for each account and determined that the following reductions can be made to each account:

Petty Cash:

The Petty Cash Account is funded at \$300,000. \$210,475 is designated for office change funds. The Department agrees with OSC's finding that the amount of cash allocated in the change funds is reasonable. The Department also agrees that the \$89,525 that remains for general use can be reduced. The Department will reduce this amount by \$49,525, to allow \$40,000 to remain in the bank account. This account is largely used for salary advances that are issued when an error occurs in payroll. As the BSC will start processing payroll in the next year, we must anticipate errors that may occur during the transition. The Department will reassess this account after the BSC transition is complete.

Confidential Account:

The Department has determined that the Confidential Account can be reduced by \$8,750, to allow \$28,000 to remain in the fund.

Travel Advance Account:

The Department has determined that the Travel Advance account can be reduced by \$5,000, to allow \$5,000 to remain in the fund.

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The Department will continue to review spending in each of these accounts on an annual basis and make adjustments as necessary to ensure that funding levels are adequate and appropriate in comparison to the business need. We will continue to utilize the established internal controls, and to look for other improvement opportunities to ensure the funds are accounted for and used only for appropriate business purposes. If you have any questions concerning this matter, please contact me at (518) 474-0846.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. David Sampson".

J. David Sampson
Executive Deputy Commissioner