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Missouri State Auditor

REVENUE

Lebanon Contract License Office

October 2012

Report No. 2012-121



<http://auditor.mo.gov>



CITIZENS SUMMARY

Findings in the audit of the Lebanon Contract License Office

Background	The Department of Revenue has appointed 183 contract agents to operate contract license offices. These offices issue driver licenses; titles for motor vehicles, trailers, and marine craft; and license plates. Contract agents are compensated through transaction-based processing fees. Under a state law which became effective in 2009, the State Auditor may audit contract license offices.
Prepayment Void Transactions	The Lebanon contract license office did not document customers' acknowledgements for three void transactions that occurred from March 13 to March 15, 2012, making it more difficult to ensure each transaction was voided for a valid reason.
Statutory Compliance	The Lebanon contract license office does not always ask customers if they want to donate to the Blindness Education, Screening, and Treatment Program Fund or the Organ Donor Program Fund, inform customers about the ability to be included in the organ donor registry and to consent to organ donation.
Accounting Controls and Procedures	The Lebanon contract license office did not always accurately record the method of payment (cash and check) and did not reconcile the composition of monies received to deposits.

In the areas audited, the overall performance of this entity was **Fair**.*

American Recovery and Reinvestment Act (Federal Stimulus)	The Lebanon contract license office did not receive any federal stimulus monies during the audited time period.
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*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

Department of Revenue

Lebanon Contract License Office

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THOMAS A. SCHWEICH

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and

Alana M. Barragán-Scott, Director
Department of Revenue
Jefferson City, Missouri
and

TM Management, Contract Agent
Lebanon Contract License Office
Lebanon, Missouri

We have audited certain operations maintained and established by the Lebanon Contract License Office, as provided by Section 136.055, RSMo. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2012. The objectives of our audit were to:

1. Evaluate the office's internal controls related to the handling of various fee and tax transactions.
2. Evaluate the office's compliance with certain contractual and statutory provisions.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the office, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the Department of Revenue's management and was not subjected to the procedures applied in our audit of the contract office.

For the areas audited, we identified (1) deficiencies in internal controls and (2) noncompliance with a statutory provision.

The accompanying Management Advisory Report presents our findings arising from our audit of the Lebanon Contract License Office.

A handwritten signature in black ink, reading "Thomas A. Schweich". The signature is fluid and cursive, with the first name "Thomas" and last name "Schweich" clearly legible.

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Toni Crabtree, CPA
In-Charge Auditor:	Robyn Vogt, M.Acct., CPA
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	Aaron Allen

Department of Revenue

Lebanon Contract License Office

Management Advisory Report - State Auditor's Findings

1. Prepayment Void Transactions

The Lebanon license office needs to improve controls over prepayment void transactions.

A prepayment void transaction occurs when a transaction is entered in the Titling and Registration Intranet Processing System (TRIPS) but is voided before payment is made. Valid reasons for prepayment void transactions include entries that contain an incorrectly spelled name, a transfer on death erroneously left off the title, an incorrect address, or date of purchase; and when customers lack sufficient funds to pay the transaction.

The license office did not obtain customer acknowledgment documentation for three void transactions that occurred from March 13 to March 15, 2012. The Department of Revenue (DOR) official procedures require customer acknowledgement of the void if a new transaction is not completed or if the new transaction shows a lesser amount due.

Obtaining customer acknowledgment and documenting the reason for voiding the transaction helps ensure the transaction actually was voided for a valid reason.

Recommendation

The Lebanon Contract License Office ensure all prepayment void transactions are supported by customer acknowledgment of and the reason for the void transaction.

Auditee's Response

I agree that all prepayment voids should be supported by required documentation and I recognize that this is an area in which there is an increased risk of loss or fraud if not monitored. My staff strives to follow the DOR procedures established for prepayment voids, but I agree that there were a few instances where staff failed to obtain the customer acknowledgment. I have already taken steps to ensure that staff is more diligent to obtain and record all required information on a prepayment void. In rare instances where a customer declines to sign void paperwork or where the customer is not physically in the office to sign, clerks have been instructed to note the circumstances surrounding the lack of customer acknowledgment, obtain a witness signature (if available), and immediately review the void with me or the Assistant Manager to ensure a proper void of a transaction.

2. Statutory Compliance

The Lebanon license office does not always inquire if customers want to donate to the Blindness Education, Screening, and Treatment Program Fund (BESTPF) and the Organ Donor Program Fund (ODPF), or inform customers of the ability to be included in the organ donor registry and to consent to organ donation.

During our audit work in the office, we noted office staff frequently did not ask customers if they wanted to donate to these funds, or inform customers



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Management Advisory Report - State Auditor's Finding

about organ donations. A Yes or No to the donation questions must be recorded in TRIPS to complete transactions. As a result, staff appear to be automatically entering a No to these questions.

Sections 301.020 and 302.171, RSMo, require personnel to inquire whether customers registering a motor vehicle and applying for a driver's license are interested in making a \$1 donation to the BESTPF and to the ODPF. In addition, Section 302.171, RSMo, requires personnel to inform customers applying for a driver's license of the ability to be included in the organ donor registry and to consent to organ donation by completing the form on the back of the driver's license.

Recommendation

The Lebanon Contract License Office ensure office staff inquire of each customer whether the customer is interested in making a \$1 donation to the BESTPF and to the ODPF, and inform customers of the ability to be included in the organ donor registry and to consent to organ donation.

Auditee's Response

I agree that staff has not consistently inquired of customers these questions. I take statutory compliance very seriously. I met with staff immediately after learning of the auditor's observations and issued a directive to all employees that these questions must be asked of every customer and that deviation from that directive will not be tolerated.

3. Accounting Controls and Procedures

The Lebanon license office needs to improve controls and procedures over monies collected. For the year ended June 30, 2012, the office collected and remitted to the DOR approximately \$3.7 million.

The license office did not always accurately record the method of payment (cash and check) in the accounting records and did not reconcile the composition of monies received to deposits. For example, the composition of deposits did not agree to the composition of receipts recorded for the three deposits made from March 13 to March 15, 2012 and the May 2, 2012 deposit. A review of these deposits identified transactions marked as paid with cash when actually paid for by check, and checks recorded as cash payments. In addition, the method of payment is not always recorded on the Drivers Sale of Information Receipt issued for driving records.

DOR official procedures for license offices provide that the composition of monies received should be reconciled to the accounting records and to deposits. Discrepancies between accounting records and deposits result in less assurance of proper handling.

Recommendation

The Lebanon City Contract License Office ensure the correct method of payment is recorded in the accounting records and the composition of monies received is reconciled to the accounting records and to deposits.



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Auditee's Response

I agree that staff has not consistently recorded the correct method of payment when finalizing customer transactions and that this is an area in which there is an increased risk of loss or fraud if not monitored. I have already implemented steps to reduce or prevent these types of errors, such as ensuring that staff does not mark the type of payment until they actually have the payment in hand (for example, running the credit card first to determine if the credit card payment will be accepted before marking the payment type as credit card on the transaction) and ensuring that staff acknowledge and document any error on the daily cashier reconciliation report and notify management of the error.

Department of Revenue

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Organization and Statistical Information

Pursuant to Section 136.030(2), the Department of Revenue (DOR) has the authority and responsibility for the collection of motor vehicle registration fees, driver license fees, motor vehicle sales and use tax, and all other taxes. Pursuant to Section 136.055, RSMo, the director of the DOR has appointed 183 contract agents to operate contract license offices. This section also provides that the state auditor may audit the contract license offices. The DOR, License Office Bureau, under the management of the Motor Vehicle and Driver Licensing Division, is responsible for administering contract license offices throughout the state.

The contract license offices are awarded through a competitive bidding process, as required by Section 136.055.2, RSMo. This bidding process must give priority to organizations and entities that are exempt from taxation (not-for-profit) under the Internal Revenue Code, and political subdivisions such as municipalities, counties, and fire protection districts. Contracts for the license offices are typically for one year, with three one-year renewal periods. The contract may be canceled at the discretion of the DOR.

The contract license offices issue titles for all Missouri motor vehicles, trailers, and marine craft; and issue and sell a wide-range of standard, personalized, and specialty license plates which can be classified into five major categories: passenger, truck, trailer, motorcycle, and bus. In addition, the contract license offices issue five basic types of driver licenses: Intermediate License (GDL), Class F (Operator), Class E (For-Hire), Class A, B, and C (Commercial), and Class M (Motorcycle). The licensing process also includes allowing customers to contribute to the organ donor program or blindness awareness fund, register with the selective services, and add endorsements or restrictions to licenses; and provides an opportunity to register to vote.

The contract agents do not receive compensation from the DOR, but do receive the following fees, allowed by Section 136.055.1, RSMo, from customers for each type of transaction processed by the office.

Agent Fees

Transaction Type	Fee
License renewal	\$3.50 one year \$7.00 two years
Transfer of registration	\$3.50
Application or transfer of title	\$2.50
Driver, operator or chauffeur license	\$2.50 three years or less \$5.00 exceeding three years
Notice of lien	\$2.50

In March 2009, the bid solicitation for the Lebanon Contract License Office was issued. The office was awarded to TM Management, effective July 23, 2009. At June 30, 2012, the contract/office manager was Toni M. Morris.



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Organization and Statistical Information

For the year ended June 30, 2012, the office collected and remitted to the DOR \$3,670,959, and retained processing fees totaling \$225,673. Additionally, as part of the bidding process, the office agreed to return 3 percent of its processing fees to the state during the first year of the contract, 4 percent during the first renewal period, and 5 percent during the second and third renewal periods. For the year ended June 30, 2012, the office returned processing fees, totaling \$11,255, to the state.

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

The Lebanon Contract License Office did not receive any federal stimulus monies during the year ended June 30, 2012.