



Thomas A. Schweich
Missouri State Auditor

REVENUE

St. Joseph Contract License Office

November 2012
Report No. 2012-138



<http://auditor.mo.gov>



CITIZENS SUMMARY

Findings in the audit of the St. Joseph 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.
Accounting Controls and Procedures	The St. Joseph contract license office did not always accurately record the method of payment (cash, check, or credit card) and did not reconcile the composition of monies received to deposits.
Federal Indictment	A federal grand jury indicted several individuals for a conspiracy involving more than \$5 million that utilized the St. Joseph contract license office to provide more than 3,500 fraudulent identity documents to illegal aliens across the United States. Once license office management became aware of the fraudulent activities, it contacted the Department of Revenue and federal, state, and local law enforcement agencies. In addition, license office personnel have since received fraudulent document training and have continued to forward any suspicious or questionable documentation to the Department of Revenue for further review. The illegal activity appears to have occurred due to a conspiracy rather than a lack of internal control policies and procedures within the license office.

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

American Recovery and Reinvestment Act (Federal Stimulus)	The St. Joseph 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

St. Joseph Contract License Office

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory	
Report - State Auditor's	1. Accounting Controls and Procedures4
Findings	2. Federal Indictment.....4

Organization and Statistical	6
Information	



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

Saint. Joseph License, LLC, Contract Agent

St. Joseph Contract License Office

St. Joseph, Missouri

We have audited certain operations maintained and established by the St. Joseph 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.
3. Evaluate actions taken in response to a federal indictment alleging a conspiracy to provide fraudulent identity documents to illegal aliens.

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) a deficiency in internal controls (2) no significant noncompliance with contractual and statutory provisions and (3) no need for further action by the office related to the federal indictment other than to continue working with law enforcement officials.

The accompanying Management Advisory Report presents our findings arising from our audit of the St. Joseph 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
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Audit Staff:	Corey McComas, M.Acct., CPA
	Aaron Allen

Department of Revenue

St. Joseph Contract License Office

Management Advisory Report - State Auditor's Findings

1. Accounting Controls and Procedures

The St. Joseph 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 Department of Revenue (DOR) approximately \$7.9 million.

The license office did not always accurately record the method of payment (cash, check, and credit card) 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. A review of these deposits identified transactions marked as paid with cash and/or credit card when actually paid for by check, and checks recorded as cash and/or credit card payments. In addition, the method of payment was 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 St. Joseph 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.

Auditee's Response

With all respects, our office will continue to follow your recommendation.

2. Federal Indictment

A federal grand jury in the United States District Court for the Western District of Missouri indicted several individuals in January 2012 for participating in a conspiracy involving more than \$5 million that utilized the St. Joseph Contract License Office to provide more than 3,500 fraudulent identity documents to illegal aliens across the United States.

The indictment alleges that since November 2009, the defendants participated in a conspiracy to transport illegal aliens, unlawfully produce identification documents, unlawfully transfer another person's identification, and commit Social Security fraud. Conspirators allegedly provided illegal aliens with birth certificates and Social Security cards in the names of others and provided them with Missouri residential addresses. The indictment alleges that illegal aliens would travel to St Joseph from across the United States to obtain either a Missouri driver license or non-driver license by using the unlawfully obtained birth certificate and Social Security cards. Members of the conspiracy allegedly accompanied illegal aliens into the license office under the guise of being translators to assist them with obtaining a state license that was in the name of another person. The state licenses could then be used by the illegal aliens to unlawfully remain in the United States, to unlawfully obtain employment, and for other unlawful purposes.



Department of Revenue
St. Joseph Contract License Office
Management Advisory Report - State Auditor's Finding

Once becoming aware of the fraudulent activities, license office management contacted the Department of Revenue (DOR) and federal, state, and local law enforcement agencies. In addition, license office personnel have since received fraudulent documentation training from local law enforcement officials, and have continued to forward any suspicious or questionable documentation to the DOR for further review.

Recommendation

The St. Joseph Contract License Office continue to work with law enforcement officials as needed during their investigation.

Auditee's Response

The St. Joseph Contract License Office agrees to continue to work with the Department of Revenue and law enforcement officials with regards to ongoing investigations and to continue its cooperation to prevent any future reoccurrence.

Department of Revenue

St. Joseph Contract License Office

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 January 2009, the bid solicitation for the St. Joseph Contract License Office was issued. The office was awarded to Saint Joseph License, LLC,



Department of Revenue
St. Joseph Contract License Office
Organization and Statistical Information

effective July 30, 2009. At June 30, 2012, the contract and office managers were James Montee and Sandra Gutshall, respectively.

For the year ended June 30, 2012, the office collected and remitted to the DOR \$7,944,133, and retained processing fees totaling \$447,246. Additionally, as part of the bidding process, the office agreed to return 10 percent of its processing fees to the state during the first contact year and 5 percent during the renewal periods. For the year ended June 30, 2012, the office returned processing fees, totaling \$22,550, to the state.

**American Recovery and
Reinvestment Act 2009
(Federal Stimulus)**

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