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Missouri State Auditor

REVENUE

Farmington Contract License Office



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Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Farmington Contract License Office

Background	The Department of Revenue (DOR) has appointed 182 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.
Sales Price Credits	Taxes for registering a vehicle are based upon the purchase price of the vehicle less any credits for selling or trading in another vehicle, or if a prior vehicle was declared a total loss. Our review of 44 transactions with a credit amount applied found 3 transactions (7 percent) had no documentation to support the credit. In 2011, the DOR determined an employee had misappropriated funds and avoided detection, in part, by manipulating the net purchase price of vehicles registered and increasing trade-in and tax credit amounts above actual amounts. The employee pleaded guilty in August 2013, was given a suspended sentence, placed on 5 years of supervised probation, and ordered to pay restitution of \$48,150.
Accounting Controls and Procedures	The 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. Our review of three deposits found cash payments recorded as check and/or credit card payments, check payments recorded as credit card and/or cash payments, and credit card payments recorded as cash and/or check payments.
No Fee Identification Log	The license office issues no fee IDs to replace illegible or misspelled IDs, but it does not always list these no fee IDs on the log as required.

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

*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.

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Department of Revenue

Farmington Contract License Office

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THOMAS A. SCHWEICH

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor

and

John R. Mollenkamp, Acting Director

Department of Revenue

Jefferson City, Missouri

and

Alternative Opportunities, Inc., Contract Agent

Farmington Contract License Office

Farmington, Missouri

We have audited certain operations maintained and established by the Farmington 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, 2013. 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) no significant noncompliance with contractual or statutory provisions.

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

A handwritten signature in black ink, reading "Thomas A. Schweich". The signature is fluid and cursive, with a large, stylized "S" at the end.

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:	Nicole Meltabarger, M. Acct., CPA

Department of Revenue

Farmington Contract License Office

Management Advisory Report - State Auditor's Findings

1. Sales Price Credits

The license office does not always retain documentation to support some credit amounts applied to vehicle sales tax transactions, and has not implemented procedures to require supervisors to periodically review this documentation.

Contract license offices collect sales and use taxes from taxpayers who are registering a vehicle. These taxes are based on the purchase price of the vehicle less any applicable credits for selling or trading in another vehicle, or if the taxpayer's prior vehicle has been declared a total loss by an insurance company. Department of Revenue (DOR) official procedures require the retention of documentation to support the net purchase price for all sales and use tax transactions.

We reviewed sales and use tax transactions processed in the license office from April 2 to April 4, 2013. Of the 44 transactions with a credit amount applied to reduce the purchase price, 3 transactions (7 percent) had no documentation to support the credit amount applied. The unsupported credits for these transactions totaled \$10,500, resulting in a \$461 reduction in taxes due.

During 2011, the DOR's Compliance and Investigation Bureau performed a review of the license office and determined an employee of the license office had misappropriated funds from October 2010 through September 2011, when the license office terminated the employee. One of the ways the employee avoided earlier detection was by manipulating the net purchase price of vehicles registered during that time by increasing trade-in and credit amounts above actual amounts. The employee pleaded guilty in August 2013, was given a suspended sentence, placed on 5 years of supervised probation, and ordered to pay restitution of \$48,150.

To ensure the net purchase price is accurately calculated, and errors and improprieties are detected in a timely manner, the license office should comply with DOR procedures requiring documentation for credit amounts be retained, and should implement procedures for supervisors to periodically review the documentation for reasonableness.

Recommendation

The license office ensure compliance with DOR procedures requiring retention of documentation to support the net purchase price for vehicle sales and use tax transactions, and implement procedures for supervisors to periodically review the documentation for reasonableness.

Auditee's Response

We agree with the Auditor's recommendation.

Current procedure is for clerks to make an electronic note in the attachment stating which accompanying documents are being sent to Jefferson City.



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This procedure will be reaffirmed with all staff in the Farmington License Office.

All three of the transactions which had missing documentation were researched by the Department of Revenue and were all later validated, therefore all appropriate taxes were collected and there was ultimately not a loss of \$461 in taxes.

It is not known where in the process the accompanying physical documentation went missing, but as stated above, staff will continue to be trained on the importance of making this electronic notation to validate that the documents were included. The office manager will periodically review the documentation for reasonableness.

The auditor's recommendation will be implemented.

2. Accounting Controls and Procedures

The license office needs to improve controls and procedures over monies collected. For the year ended June 30, 2013, the office collected and remitted to the DOR approximately \$4.5 million in taxes and fees.

The license office did not always accurately record the method of payment (cash, check, or 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 April 2 to April 4, 2013. A review of these deposits identified cash payments recorded as check and/or credit card payments, check payments recorded as credit card and/or cash payments, and credit card payments recorded as cash and/or check payments.

DOR official procedures for license offices provide the composition of monies received should be reconciled to the accounting records and to deposits. Any differences identified as part of this work should be reviewed to ensure proper handling of monies received.

Recommendation

The license office ensure the correct method of payment is recorded in the accounting records, the composition of monies received is reconciled to the accounting records and to deposits, and differences identified from the reconciliation process are appropriately reviewed.

Auditee's Response

We agree with the Auditor's recommendation.

Customers infrequently indicate their preferred method of payment only to later change their payment type. Clerks have been trained to ask the customer (after stating the amount due) which type of payment they will be making PRIOR to completing the electronic process.



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Management Advisory Report - State Auditor's Finding

When customers still change their payment type after due diligence by the clerk, documentation is made in two ways:

- *Written documentation on the actual daily transition audit indicating that a change occurred as a result of a customer choice.*
- *A notation will be made on the daily Cashier's Report required by the DOR. The office manager reviews the transactions on a daily basis.*

The auditor's recommendation will be implemented.

3. No Fee Identification Log

The license office does not record some Identifications (IDs) issued for no fees on the office log, as required by the DOR.

No fee IDs are issued at no cost to the ID holder to replace IDs previously purchased for reasons such as an ID printing illegibly or having a misspelled name. Our review of no fee IDs issued in the license office between December 29, 2012, and March 7, 2013, noted 6 of the 25 no fee IDs issued during that period were not listed on the log maintained by the office. The license office is required by the DOR to maintain the log to document the reason for the no fee ID issuance. DOR personnel also use the logs to review for accurate processing of ID transactions and to ensure the reasons for issuing no fee IDs are reasonable.

Maintaining an accurate and complete ID log is needed to demonstrate the proper issuance of no fee IDs.

Recommendation

The license office ensure all no fee ID transactions are properly recorded on the office log.

Auditee's Response

We agree with the Auditor's recommendation.

License Office staff will be retrained on this procedure and local office manager will monitor this issue for compliance. Other management support staff for Alternative Opportunities, Inc. will periodically monitor for compliance as well.

The auditor's recommendation will be implemented.

Department of Revenue

Farmington 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 182 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 that are 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 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



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Organization and Statistical Information

In March 2009, the DOR solicited bids for the Farmington Contract License Office. The office was awarded to Alternative Opportunities, Inc., effective January 14, 2010.

For the year ended June 30, 2013, the office collected and remitted to the DOR \$4,500,526, and retained processing fees totaling \$252,976. Additionally, as part of the bidding process, the office agreed to return 5 percent of its processing fees to the state. For the year ended June 30, 2013, the office returned to the state processing fees totaling \$12,850.

Personnel

At June 30, 2013, key office personnel were as follows:

David Broeker, Contract Manager
Kelly Bertel, Office Manager