



Thomas A. Schweich
Missouri State Auditor

REVENUE

Gladstone Contract License Office



November 2013
Report No. 2013-124

<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Gladstone Contract License Office

Background	The Department of Revenue 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.
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 credit card payments, check payments recorded as credit card and/or cash payments, and credit card payments recorded as cash payments.

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

*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.

All reports are available on our website: <http://auditor.mo.gov>

Department of Revenue

Gladstone Contract License Office

Table of Contents

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

Management Advisory Report - State Auditor's Findings	Accounting Controls and Procedures4
-------------------------------------------------------------	-------------------------------------------

Organization and Statistical Information	5
---------------------------------------------	---



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

James R. Williams, Contract Agent

Gladstone Contract License Office

Gladstone, Missouri

We have audited certain operations maintained and established by the Gladstone 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) a deficiency in internal controls, and (2) no significant noncompliance with contractual or statutory provisions.

The accompanying Management Advisory Report presents our finding arising from our audit of the Gladstone 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:	Susan J. Beeler, CPA, CIA
In-Charge Auditor:	Corey McComas, M. Acct., CPA
Audit Staff:	Nicole Meltabarger, M. Acct., CPA
	Rachelle Thompson

Department of Revenue

Gladstone Contract License Office

Management Advisory Report - State Auditor's Findings

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 Department of Revenue (DOR) approximately \$8.4 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, and for the June 25, 2013, deposit. A review of these deposits identified cash payments recorded as credit card payments, check payments recorded as credit card and/or cash payments, and credit card payments recorded as cash 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

The Gladstone License Office, agent, and management staff have been reminded of the importance to accurately record the correct form of payment each and every time with respect to the transactions we process. In the future event of any forms of payment that are changed after finalizing the transaction, we will note the change on our audit copies, as well as adjusting our nightly composition of monies collected.

Department of Revenue

Gladstone 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



Department of Revenue
Gladstone Contract License Office
Organization and Statistical Information

In January 2009, the DOR solicited bids for the Gladstone Contract License Office. The office was awarded to James R. Williams, effective October 1, 2009.

For the year ended June 30, 2013, the office collected and remitted to the DOR \$8,405,736, and retained processing fees totaling \$451,072. 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 and 2 percent during the renewal periods. For the year ended June 30, 2013, the office returned to the state processing fees totaling \$9,164.

Personnel

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

James R. Williams, Contract Manager
Abigail Kinman, Office Manager