



**Thomas A. Schweich**  
Missouri State Auditor

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## REVENUE

# Malden Contract License Office

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November 2013  
Report No. 2013-125



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<http://auditor.mo.gov>



**Thomas A. Schweich**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Malden 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 check payments and check and credit card payments recorded as cash payments. We also noted three manual receipt slips for driving record purchases were not retained.
Contract Compliance	The DOR agent contract requires actual daily receipts be entered into the computerized system to accurately reflect any overages and shortages, but our July 10, 2013 cash count noted a shortage in collections for one of the cash drawers, which was not subsequently shown on the ending daily documentation. The agent contract requires the license office use a video camera with at least a 60-day memory, but the system had only retained recordings going back 55 days.

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.

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# Department of Revenue

## Malden 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

James Burrow, Contract Agent

Malden Contract License Office

Malden, Missouri

We have audited certain operations maintained and established by the Malden 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) noncompliance with contractual or statutory provisions.

The accompanying Management Advisory Report presents our findings arising from our audit of the Malden 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, and "A." as a middle initial.

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

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# Department of Revenue

## Malden Contract License Office

### Management Advisory Report - State Auditor's Findings

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#### **1. 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 \$1.7 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 payments, and check and credit card payments recorded as cash payments. In addition, we noted three manual receipt slips for driving record purchases were not retained. The license office must issue manual receipt slips for these transactions because driving records are processed outside of the computerized system.

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. In addition, DOR official procedures require a receipt slip be issued for all sales of driving records.

#### **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. In addition, the license office should ensure receipt slips are issued for all driving record sales.

#### **Auditee's Response**

*We will strive to be more efficient and mindful of how the customer pays. If we key in an incorrect payment method, we will, if necessary, make notes to the accounting report of how the customer actually paid. We will use these notes when performing reconciliations and will review any discrepancies. We will also issue receipt slips for all driving record sales.*

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#### **2. Contract Compliance**

The license office does not always follow procedures required by the DOR agent contract.

##### **2.1 Collection Shortages**

The license office does not always handle shortages in collections as required by the contract with the DOR. We conducted cash counts in the office on July 10, 2013, and noted a shortage in collections for one of the cash drawers counted by comparing the amounts counted to system reports showing the amounts that should have been collected. However, the shortage was not subsequently shown on the ending daily documentation. Instead the clerk made up the difference by adding personal monies to the collections after we noted the shortage.



Department of Revenue  
Malden Contract License Office  
Management Advisory Report - State Auditor's Finding

The DOR agent contract provides that if the daily balance reflects a shortage, the agent should pay the difference prior to the deposit, but DOR procedures also require actual daily receipts be entered into the computerized system to accurately reflect any overages and shortages.

## 2.2 Video Surveillance

The video surveillance system does not retain recorded footage for the timeframe required by the DOR agent contract. The contract requires the license office agent use a video camera with at least a 60-day memory. Our review of the recordings on July 11, 2013, noted the system had only retained recordings going back to May 17, 2013, or 55 days, instead of the required 60 days.

The security system is an important control to protect against the theft of license office inventory, capital assets, and collections. By not ensuring the office is in compliance with the contract requirement, the security of these assets could be compromised.

## Recommendations

The license office:

- 2.1 Ensure compliance with the contract by covering shortages with the agent fees and properly documenting any differences.
- 2.2 Ensure the video surveillance system retains 60 days of recordings, as required by the contract.

## Auditee's Response

- 2.1 *We normally deposit any overages into the Motor Vehicle account. The agent fees will be shorted only when and if we find the discrepancy. We will make notes to the accounting report and reconcile the drawer to \$100 for each of the 3 Titling and Registration Intranet Processing System cash drawers.*
- 2.2 *The video surveillance usually always went back 60 days. We have since corrected the problem. What was happening, according to the techs that installed the equipment, was that our hard drive was too full and the sensitivity was set too high, causing the system to record through the night when it wasn't necessary. Shining headlights through the doors and windows was the problem. To correct, a bigger hard drive was installed, everything was backed up and the sensitivity was lowered. We also now have a contract with the computer company to come in once a month to make sure everything is running correctly.*

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# Department of Revenue

## Malden Contract License Office

### Organization and Statistical Information

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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  
Malden Contract License Office  
Organization and Statistical Information

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In June 2009, the DOR solicited bids for the Malden Contract License Office. The office was awarded to James Burrow, effective October 15, 2009.

For the year ended June 30, 2013, the office collected and remitted to the DOR \$1,716,504, and retained processing fees totaling \$97,105. Under the terms of the contract, the office was not required to return a percentage of its processing fees to the state.

## Personnel

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

James Burrow, Contract Manager  
Tammy Rawlings, Office Manager