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Missouri State Auditor

REVENUE

Bolivar Contract License Office

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Bolivar Contract License Office

Background	The Department of Revenue (DOR) has appointed 178 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 Tax Transactions	Contract license offices collect sales and use taxes based upon the purchase price of the vehicle being titled, less any applicable credits. DOR procedures require the offices to retain documentation to support the net purchase price and requires office staff to use a DOR approved source to determine the estimated fair market value if the documentation is not sufficient or the purchase price is questionably low. License office personnel did not retain sufficient documentation to support the purchase price for 2 of 47 (4%) transactions reviewed. For 2 of the 37 (5 percent) transactions reviewed that had addresses in the DOR computerized system, license office staff charged a lower (outside city limits) tax rate rather the city tax rate listed for the address in the system.
Prepayment Void Transactions	Prepayment void transactions occur when transactions are voided before payment is made, such as when the customer lacks sufficient funds or the entry has incorrect information. DOR procedures require a supervisory review of voided transactions and customer acknowledgement if a new transaction is not completed or is for a lesser amount. The license office manager did not document approval for 2 of 10 (20 percent) prepayment void transactions that occurred between January 7 and January 10, 2014, and license office personnel did not obtain a customer acknowledgement for 1 of these 2 transactions.

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

Bolivar 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

T & J Stark Enterprises, LLC, Contract Agent

Bolivar Contract License Office

Bolivar, Missouri

We have audited certain operations maintained and established by the Bolivar 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, 2014. 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 Bolivar Contract License Office.

A handwritten signature in black ink that reads "Thomas A. Schweich". The signature is written in a cursive style with a large, sweeping initial 'T'.

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:	Joshua Shope, M. Acct.

Department of Revenue
Bolivar Contract License Office
Management Advisory Report - State Auditor's Findings

**1. Sales Tax
Transactions**

The license office does not always retain adequate documentation to support purchase price amounts on vehicle sales tax transactions, and the license office does not always charge the correct sales tax rate.

Contract license offices collect sales and use taxes from taxpayers who are titling a vehicle. These taxes are based on the purchase price of the vehicle less any applicable credits, such as for selling or trading in another vehicle. Department of Revenue (DOR) official procedures require the retention of documentation to support the net purchase price for all sales and use tax transactions. If the documentation is not sufficient to support the purchase price or the purchase price is questionably low, DOR official procedures require the license office staff to use a DOR approved source to determine the estimated fair market value. If the estimated fair market value is not similar to the price claimed by the taxpayer, a notarized bill of sale from the seller is required or the estimated fair market value must be used by the license office staff to calculate sales tax due.

License office personnel determine the sales tax rate to be charged based on the taxpayer's address. Most addresses are listed in the DOR's computerized system, which recommends a tax rate for each transaction based on the address. If the system is unable to provide a tax rate, DOR official procedures require the clerk to ask the taxpayer if he or she lives within city limits and then confirm this declaration. Ways to confirm the declaration include a property tax receipt or letter from the tax jurisdiction.

We reviewed sales and use tax transactions processed in the license office from January 6 to January 8, 2014, and noted the following concerns:

Purchase prices

License office personnel did not retain sufficient documentation to support the purchase price for 2 of 47 transactions (4 percent) reviewed. For these 2 transactions, the purchase price used was questionably low, but license office staff did not obtain a notarized bill of sale to support the purchase price. We obtained the estimated fair market values from DOR personnel and determined the reported purchase prices for the 2 transactions totaled \$10,149 lower than the estimated fair market values, resulting in a \$526 reduction in taxes collected.

When we brought these transactions to the DOR's attention, the DOR sent additional tax due letters to the 2 taxpayers. One taxpayer provided a notarized bill of sale to support the purchase price, which should have been obtained by the license office staff at the time of the transaction. For the other transaction, the DOR sent the taxpayer an additional tax due letter indicating the taxpayer owed an additional \$64. As of August 1, 2014, the DOR has not received a response. The DOR will eventually suspend the registration if the taxpayer does not contact the DOR.



Department of Revenue
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Management Advisory Report - State Auditor's Finding

Sales tax rates

For 2 of the 37 (5 percent) transactions reviewed that had addresses in the DOR computerized system, license office staff charged lower tax rates than required. In both instances, license office staff charged the taxpayer tax rates that were outside the city limits, when the city sales tax rate should have been included based on the address in the DOR system. These transactions resulted in a \$663 reduction in local taxes collected.

When we brought these transactions to the DOR's attention, DOR staff determined the suggested tax rate in the DOR's computerize system was incorrect for one of the transactions, and the license office staff had actually charged the correct sales tax rate. However, since the DOR system had suggested another tax rate, the license office staff should have documented why the suggested tax rate was not used. For the second transaction, the taxpayer, who under paid by \$603, submitted an initial payment of \$150 and agreed to pay the remaining balance in 5 equal monthly installments.

Conclusions

To ensure the purchase price is accurate and the proper tax rates are charged, the license office should comply with DOR procedures requiring adequate documentation of purchase price and verification of the taxpayer's address in the computerized system.

During February 2012, the DOR's Compliance and Investigation Bureau performed a review of the license office and noted similar concerns with motor vehicle sales tax transaction processing. The concerns included a tax exemption inappropriately applied, a purchase price credit inaccurately applied, an incorrectly recorded purchase price, and an unsupported credit amount.

Recommendation

The license office ensure compliance with DOR procedures requiring adequate documentation to support the purchase price for vehicle sales and use tax transactions. In addition, the license office should ensure the correct sales tax rate for the taxpayer's address is charged.

We also recommend the DOR conduct a follow-up review of the license office to ensure the license office has implemented corrective action.

Auditee's Response

The license office provided the following written response:

Purchase Prices: We agree with the auditor's recommendations to provide documentation to support the purchase price for vehicle sales and use tax transactions. The auditor's recommendation will be implemented. Our license office clerks have been instructed to charge tax amounts according to fair market value or to send the customer back to the seller for a notarized bill of sale. Management will continue to monitor and provide training on this procedure.



Sales Tax Rates: We agree with the auditor's recommendations to ensure the correct sales tax rate for the taxpayer's address. The auditor's recommendation will be implemented. Our license office clerks have been instructed to never choose "none" as a reason for over-riding the system. In addition, any tax rate that is over-ridden will be documented in the system, a letter from the governing authority, or taxpayer's receipt. Management will continue to monitor and provide training on this procedure.

The DOR provided the following written response:

The Department will assign a field coordinator to conduct a follow-up and also request our Compliance and Investigations Bureau to do a follow-up internal audit.

2. Prepayment Void Transactions

The license office manager did not document approval for 2 of 10 (20 percent) prepayment void transactions that occurred from January 7 to January 10, 2014. In addition, license office personnel did not obtain customer acknowledgment for 1 of these 2 transactions.

A prepayment void transaction occurs when a transaction is entered in the Titling and Registration Intranet Processing System but is voided before payment is made. Valid reasons for prepayment void transactions include when customers lack sufficient funds to pay for the transaction, and entries with incorrect information.

DOR official procedures require a supervisory review of voided transactions, and customer acknowledgement of a void transaction if a new one is not completed or is for a lesser amount. In addition, supervisory review and customer acknowledgement help ensure a transaction was voided for a valid reason.

Recommendation

The license office ensure all prepayment void transactions are reviewed and approved by office management, and are supported by customer acknowledgment, when applicable.

Auditee's Response

The license office provided the following written response:

We agree with the auditor's recommendations for management to review and initial approved prepayment voids. The auditor's recommendations will be implemented. Management will check voids to follow correct procedure on void reports and over-ride reports. Our license office clerks have been instructed to obtain the customer's signature on voids when there is a lesser amount due on the correction or if the transaction is not reprocessed. Management will continue to monitor and provide training to clerks on prepayment voids.

Department of Revenue

Bolivar 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 178 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. Prior to August 2013, contracts typically ran for a year, with three 1-year renewal periods. Starting in August 2013, contracts are typically for a period of 4 years. 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, World War I memorial fund, and/or blindness awareness fund. Customers may also register with the selective services, add endorsements or restrictions to licenses, and 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
Bolivar Contract License Office
Organization and Statistical Information

The Bolivar Contract License office was awarded to T & J Stark Enterprises, LLC in July 2009. In November 2013, due to the expiration of the 2009 contract, the DOR again solicited bids for the Bolivar Contract License Office. The office was again awarded to T & J Stark Enterprises, LLC, effective February 6, 2014.

For the year ended June 30, 2014, the office collected and remitted to the DOR \$5,035,724, and retained processing fees totaling \$161,072. Additionally, as part of the bidding process, the office agreed to return 0.5 percent of its processing fees to the state under both the current and prior contracts. For the year ended June 30, 2014, the office returned to the state processing fees totaling \$803.

Personnel

At June 30, 2014, key office personnel were as follows:

Jean Stark, Contract Manager
Dru Baker, Office Manager