



Thomas A. Schweich
Missouri State Auditor

REVENUE

Doniphan Contract License Office



September 2014
Report No. 2014-089

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CITIZENS SUMMARY

Findings in the audit of the Doniphan 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.
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 customer acknowledgement if a new transaction is not completed or is for a lesser amount, but office staff did not obtain customer acknowledgement for 6 of 10 (60 percent) such transactions between January 6 and January 16, 2014.
No Fee Identification Log	No fee IDs are issued at no cost to the ID holder to replace previously purchased IDs that printed illegibly or contained a misspelled name. Our review found 3 of the 17 no fee IDs issued between July 3, 2013, and February 6, 2014, were not listed on the office log, as required by the DOR.

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.

Department of Revenue

Doniphan Contract License Office

Table of Contents

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

Management Advisory	
Report - State Auditor's	1. Prepayment Void Transactions.....4
Findings	2. No Fee Identification Log4

Organization and Statistical	5
Information	



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
John Young, Contract Agent
Doniphan Contract License Office
Doniphan, Missouri

We have audited certain operations maintained and established by the Doniphan 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 Doniphan 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 middle initial "A" in between.

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
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Audit Manager:	Susan J. Beeler, CPA, CIA
In-Charge Auditor:	Corey McComas, M. Acct., CPA
Audit Staff:	Joshua Shope, M. Acct.

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

1. Prepayment Void Transactions

License office staff did not obtain customer acknowledgment documentation for 6 of 10 (60 percent) applicable prepayment void transactions that occurred from January 6 to January 16, 2014.

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.

Department of Revenue (DOR) official procedures require customer acknowledgement of a void transaction if a new one is not completed or is for a lesser amount. In addition, obtaining customer acknowledgment helps ensure a transaction was voided for a valid reason.

Recommendation

The license office ensure applicable prepayment void transactions are supported by customer acknowledgment.

Auditee's Response

All license office personnel will make sure that all prepayment void transactions will be signed by the customer and initialed by the office manager.

2. 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 July 3, 2013, and February 6, 2014, noted 3 of the 17 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

The license office will maintain an accurate and complete ID log for all no fee ID transactions.

Department of Revenue

Doniphan 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
Doniphan Contract License Office
Organization and Statistical Information

The Doniphan Contract License Office contract was awarded to John Young in April 2009 through a competitive bid process. In August 2013, due to expiration of the 2009 contract, the DOR again solicited bids for the Doniphan Contract License Office. The office was again awarded to John Young, effective November 8, 2013.

For the year ended June 30, 2014, the office collected and remitted to the DOR \$3,104,806, and retained processing fees totaling \$97,247. Additionally, as part of the bidding process, the office agreed to return 0.5 percent¹ of its processing fees to the state under the current contract. For the year ended June 30, 2014, the office returned to the state processing fees totaling \$310.

Personnel

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

John Young, Contract Manager
Jessica Moore, Office Manager

¹ Under the terms of the prior contract, the office was not required to return a percentage of its processing fees to the state.