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Missouri State Auditor

REVENUE

Sugar Creek Contract License Office



September 2014
Report No. 2014-090

<http://auditor.mo.gov>



CITIZENS SUMMARY

Findings in the audit of the Sugar Creek Contract License Office

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|------------------------------------|---|
| 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 2 of 8 (25 percent) such transactions between March 10 and March 12, 2014. |
| 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. The composition of receipts did not match the composition of deposits for 5 deposits reviewed, 4 checks on hand were not restrictively endorsed, and 6 manual receipt slips did not include the method of payment. |
| Contract Compliance | License office staff did not properly maintain the inventory records for 3 of 25 items reviewed. We found 3 items that were not listed in the inventory records. In addition, a total of 9 items could not be located during the last two semi-annual inventories, for which the DOR required a \$166 reimbursement. |
| 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 2 of the 19 no fee IDs issued between January 15 and April 21, 2014, were not listed on the office log, as required by the DOR. |

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.

Department of Revenue

Sugar Creek 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

Paul J. Wrabec Co., Inc., Contract Agent
Sugar Creek Contract License Office
Sugar Creek, Missouri

We have audited certain operations maintained and established by the Sugar Creek 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) noncompliance with a contractual provision.

The accompanying Management Advisory Report presents our findings arising from our audit of the Sugar Creek 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 |
| 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. |

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Management Advisory Report - State Auditor's Findings

1. Prepayment Void Transactions

License office staff did not obtain customer acknowledgment documentation for 2 of 8 (25 percent) applicable prepayment void transactions that occurred from March 10 to March 12, 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.

During February 2012, the DOR's Compliance and Investigation Bureau performed a review of the license office and noted the same concerns with prepayment void procedures.

Recommendation

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

Auditee's Response

We have gone over the procedure for prepayment voids with every clerk and made sure that everyone understands the importance of doing these correctly. We are now getting signatures on every prepayment void along with reasons for the void indicated on every prepayment void transaction. Continued problems with adherence to this procedure is grounds for termination.

2. Accounting Controls and Procedures

The license office needs to improve controls and procedures over monies collected. For the year ended June 30, 2014, the office collected and remitted to the DOR approximately \$10.3 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 March 10 to March 12, 2014, and for the April 25 and April 28, 2014, deposits. A review of these deposits identified cash and credit card payments recorded as check payments, check payments recorded as credit card payments, and check and credit card payments recorded as cash payments. In addition, 4 checks on hand during our cash count conducted on April 28, 2014, were not restrictively endorsed and 6 manual receipt slips issued for driving record purchases and fees collected for the reinstatement of driving privileges did not include the method of payment. The license office must issue manual receipt slips for



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these transactions because they are processed outside of the computerized system.

DOR official procedures for license offices indicate 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, to adequately safeguard receipts, DOR official procedures indicate that checks should be immediately endorsed when received.

During February 2012, the DOR's Compliance and Investigation Bureau performed a review of the license office and noted the same concerns with method of payment recording errors and a lack of timely endorsement of checks.

Recommendation

The license office ensure the correct method of payment is recorded in the accounting records and 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 the method of payment is recorded on all manual receipt slips, and checks are restrictively endorsed immediately upon receipt.

Auditee's Response

The manger has met with every clerk and discussed the importance of making sure that the correct method of payment is entered for every transaction. If the check was not correctly restrictively endorsed with the printer they are to immediately stamp the back of the check with the DOR deposit stamp and write the transaction number on the back of the check. The manager continuously monitors these and ensures the correct forms of payment are being entered. The manager or assistant manager assists with counting down the drawers at the end of every shift, if a transaction was ran incorrectly it is immediately corrected and brought to the clerk's attention. Continued miscounting or incorrect payment entries is a violation of policy and is grounds for docking a clerk's quarterly performance bonus.

3. Contract Compliance

The license office does not always accurately update perpetual inventory records, as required by the DOR agent contract. According to office management, the office tries to maintain a 30-day stock of inventory items such as license plates, tabs, decals, and permits.

License office staff did not properly maintain the inventory records for 3 of 25 items reviewed. We found 3 items that were not listed in the inventory records. Also, during the last two semi-annual inventories, a total of 9 items could not be located. As a result, the DOR required the office to reimburse the DOR \$166 for the missing items.



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The license office increases the risk of undetected theft and/or impropriety when inventory records are not updated accurately and on a timely basis. In addition, the DOR agent contract requires the license office to maintain up-to-date perpetual inventory records.

Recommendation

The license office maintain accurate perpetual inventory records, as required by the DOR agent contract.

Auditee's Response

Perpetual inventory records have been maintained on a daily basis. Every day when the perpetual inventory is done we determine any missing or skipped inventory and immediately locate the inventory. The last semiannual inventory that was done in July had no missing inventory and was a perfect report. Any missing inventory is grounds for docking a manager's quarterly performance bonus.

4. 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 January 15, 2014, and April 21, 2014, noted 2 of the 19 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 implemented a new procedure that the manager and/or assistant manager will not conduct the override until the manager/assistant manager records the no fee transaction on the no fee log. This procedure keeps the manager accountable for every no fee transaction processed in the office. Any missing no fee transactions that are not logged lead to deductions of a manager's quarterly performance bonus.

Department of Revenue

Sugar Creek 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 |



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Organization and Statistical Information

The Sugar Creek Contract License Office contract was awarded to Paul J. Wrabec Co., Inc., in June 2009 through a competitive bid process. In November 2013, due to expiration of the 2009 contract, the DOR again solicited bids for the Sugar Creek Contract License Office. The office was again awarded to Paul J. Wrabec Co., Inc., effective January 6, 2014.

For the year ended June 30, 2014, the office collected and remitted to the DOR \$10,337,960, and retained processing fees totaling \$277,606. Additionally, as part of the bidding process, the office agreed to return 1 percent¹ of its processing fees to the state from January 2014 through June 30, 2014. For the remaining 4 years of the contract the office agreed to return 1.2 percent, 1.3 percent, 1.4 percent, and 1.5 percent for the years ended June 30, 2015, 2016, 2017, and 2018, respectively. For the year ended June 30, 2014, the office returned to the state processing fees totaling \$8,291.

Personnel

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

Cyril J. Wrabec, Contract Manager
Jennifer Pool, Office Manager

¹ Under the terms of the prior contract, the office was required to return 5 percent during the year ended June 30, 2014, until the new contract became effective in January 2014.