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Missouri State Auditor

REVENUE

Carthage Contract License Office



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CITIZENS SUMMARY

Findings in the audit of the Carthage Contract License Office

Background	The Department of Revenue (DOR) has appointed 178 contract agents to operate contract license offices across the state. 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 a documented reason for voiding a transaction and customer acknowledgement if a new transaction is not completed or is for a lesser amount. License office personnel did not maintain any documentation for 3 of 12 (25 percent) prepayment void transactions that occurred from March 11 to March 13, 2015. License office personnel did not document the reasons for voiding these transactions or obtain customer acknowledgment for 1 applicable transaction.
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 1 deposit reviewed, including a credit card overpayment refunded to the customer in cash.

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

Carthage Contract License Office

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NICOLE R. GALLOWAY, CPA
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Honorable Jeremiah W. (Jay) Nixon, Governor
and
Nia Ray, Director
Department of Revenue
Jefferson City, Missouri
and
License Office Services, LLC, Contract Agent
Carthage Contract License Office
Carthage, Missouri

We have audited certain operations maintained and established by the Carthage 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, 2015. The objectives of our audit were to:

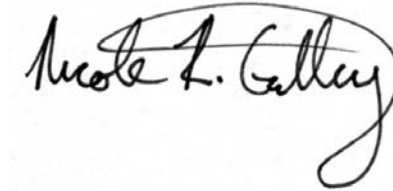
1. Evaluate the office's internal controls related to handling of various fees and tax transactions.
2. Evaluate the office's compliance with certain contractual and statutory provisions.

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 Carthage Contract License Office.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with the first name "Nicole" and last name "Galloway" clearly legible. The middle initial "R." is smaller and less distinct.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	John Luetkemeyer, CPA
Director of Audits:	Douglas J. Porting, CPA, CFE
Audit Manager:	Susan J. Beeler, CPA, CIA
In-Charge Auditor:	Joyce Thomson
Audit Staff:	Joshua Shope, M.Acct. Hunter O'Donnell, M.Acct.

Department of Revenue

Carthage Contract License Office

Management Advisory Report - State Auditor's Findings

1. Prepayment Void Transactions

License office personnel did not maintain any documentation for 3 of 12 (25 percent) prepayment void transactions that occurred from March 11 to March 13, 2015. License office personnel did not document the reasons for voiding these transactions or customer acknowledgement for 1 applicable transaction.

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 documentation be maintained of all void reports and related receipt slips. DOR official procedures also require a documented reason for voiding a transaction, and customer acknowledgement of a void transaction if a new one is not completed or is for a lesser amount. Maintaining appropriate documentation, including documenting the reason for voiding a transaction and obtaining customer acknowledgement help ensure the transaction was voided for a valid reason.

Recommendation

The license office ensure all prepayment void documentation is maintained, including the reason for the void transaction and customer acknowledgment, when applicable.

Auditee's Response

We will ensure all clerks make notations on the prepayment void transaction as to why they voided the transaction. Also if the transaction was reprocessed, attach a copy of the corrected transaction to the prepayment void. We will have the customer sign prepayment void as needed.

2. Accounting Controls and Procedures

The license office needs to improve controls and procedures over monies collected. For the year ended June 30, 2015, the office collected and remitted to the DOR approximately \$9.3 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, reconcile the composition of monies received to deposits, or make deposits intact. For example, the composition of deposits did not agree to the composition of receipts recorded for the deposit made for March 12, 2015. A review of the deposit identified a motor vehicle check payment recorded as a credit card payment, and an erroneous motor vehicle credit card overpayment refunded to the customer in cash instead of voiding the transaction and reprocessing it.

DOR official procedures for license offices indicate the composition of monies received should be reconciled to the accounting records and to



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deposits. Any differences identified as part of this work should be reviewed to ensure proper handling of monies received. DOR official procedures also require motor vehicle transactions with erroneous overpayments to be voided and reprocessed for the correct amount. This process helps ensure the composition of receipts agrees to the composition of deposits and allows for depositing receipts intact.

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, erroneous overpayment transactions should be voided and reprocessed in accordance with DOR procedures and all deposits should be made intact.

Auditee's Response

All clerks will be more aware of how a customer is paying. If an error in payment occurs, the clerk will make a notation on the audit copy and on their cashier's report at the end of the day. If there is an incorrect payment on a credit/debit card, the clerk will void the transaction and reprocess the transaction. All monies will be reconciled to accounting reports and deposits and the differences will be identified and reviewed.

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Organization and Statistical Information

Pursuant to Section 136.030(2), RSMo, 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. From August 2013 until January 2014, contracts typically ran for a 4-year period. Starting in January 2014, contracts are typically for a period of 5 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 Selective Service, 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

In January 2014, the DOR solicited bids for the Carthage Contract License Office. The office was awarded to License Office Services, LLC, effective April 28, 2014.

For the year ended June 30, 2015, the office collected and remitted to the DOR \$9,325,317, and retained processing fees totaling \$223,345. Additionally, as part of the bidding process, the office agreed to return 1 percent of its processing fees to the state. For the year ended June 30, 2015, the office returned to the state processing fees totaling \$2,246.

Personnel

At June 30, 2015, key office personnel were as follows:

Faye Williams, Contract Manager
Stephanie Agan, Office Manager