



Nicole R. Galloway, CPA  
Missouri State Auditor

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## REVENUE

# St. Charles Contract License Office



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November 2015  
Report No. 2015-108

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<http://auditor.mo.gov>



**Nicole R. Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the St. Charles 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.                                 |
| 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. License office personnel did not ensure sales tax transactions were properly entered into the computerized system for 2 transactions reviewed, resulting in over collection of sales tax for these transactions. |
| 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 3 deposits reviewed.  |
| No Fee Identification Log          | No fee identification cards (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 11 no fee IDs issued between April 1 and May 8, 2015, 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.

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# Department of Revenue

## St. Charles Contract License Office

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**NICOLE R. GALLOWAY, CPA**  
**Missouri State Auditor**

Honorable Jeremiah W. (Jay) Nixon, Governor  
and  
Nia Ray, Director  
Department of Revenue  
Jefferson City, Missouri  
and  
License Management, LLC, Contract Agent  
St. Charles Contract License Office  
St. Charles, Missouri

We have audited certain operations maintained and established by the St. Charles 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:

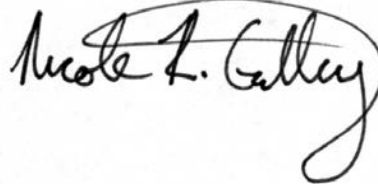
1. Evaluate the office's internal controls related to handling of various fees and tax transactions.
2. Evaluate the office's compliance with certain contractual and statutory provisions.

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 St. Charles Contract License Office.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with a large loop at the end of the last name.

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.<br>Hunter O'Donnell, M.Acct. |

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Department of Revenue  
St. Charles Contract License Office  
Management Advisory Report - State Auditor's Findings

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**1. Sales Tax Transactions**

The license office does not always ensure sales tax transactions are properly entered into the computerized system, resulting in incorrect sales tax collections. License office staff incorrectly applied a sales tax credit and entered an incorrect net purchase price.

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 required the retention of documentation to support all sales and use tax transactions.

We reviewed 167 sales and use tax transactions processed in the license office from February 9 to February 11, 2015, and noted concerns with 2 of these transactions (1 percent), as follows:

Sales tax credit

License office personnel erroneously applied a \$300 out-of-state sales tax credit to the purchase price of a vehicle, thereby reducing the net purchase price on which taxes were calculated. However, license office staff should have applied the tax credit to the total taxes due, which should have resulted in a reduction of total taxes by \$300. When we brought this transaction to the DOR's attention, the DOR determined the sales tax over collection to be \$287, and sent a refund to the taxpayer.

Purchase prices

License office personnel entered a vehicle's full purchase price into the system, instead of the net purchase price, improperly excluding a \$650 trade-in credit. When we brought this transaction to the DOR's attention, the DOR determined the sales tax over collection to be \$39, and sent a refund to the taxpayer.

Conclusions

To ensure proper sales tax amounts are charged to customers, the license office should ensure sales tax transactions are properly entered into the computerized system.

During November 2014, 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 identified included three transactions with an incorrect credit amount, and nine transactions with incorrect purchase price.

**Recommendation**

The license office should verify accurate entry of sales tax transactions in the computerized system before processing taxes due.

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



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## Auditee's Response

*The license office provided the following response:*

*The office acknowledges the mistake on the two transactions, and will again emphasize the need for accurate entry of each transaction. Each application will be verified by supervisory staff daily, and any transaction found not accurate will be corrected prior to application being submitted to DOR for processing.*

*The DOR provided the following response:*

*In addition to our periodic audits of the license offices, the DOR is also exploring analytical review procedures designed to specifically assist us in monitoring vehicle purchase prices entered by the license offices. The DOR will publish articles in the License Office News to remind all offices to follow procedures related to vehicle purchase price, sales tax rates, and tax credit requirements for sales and use tax related transactions.*

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## 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 \$23.5 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 February 9 to February 11, 2015. A review of these deposits identified check and credit card payments recorded as cash payments, and cash payments recorded as credit card payments.

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.

During November 2014, 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.

## 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.

## Auditee's Response

*The office does agree that the method of payment should be recorded correctly, and will emphasize the need for that with each clerk, but the office*



Department of Revenue  
St. Charles Contract License Office  
Management Advisory Report - State Auditor's Findings

*does not agree with the findings that there are discrepancies with deposits, or that the deposits were not reconciled to the appropriate accounting reports. All money collected was appropriately recorded on each deposit ticket. The breakdown of each deposit for cash, check, or credit card is reconciled to each clerk cashier report, with all shortages paid by the office, and all overages deposited to the state per DOR guidelines. All discrepancies for incorrect payment method will be notated on the appropriate audit copy, and for driver transactions it will be noted on the listing sheets.*

## Auditor's Comment

The composition of deposits did not reconcile to the composition of receipts for the days noted above. Daily shortages/overages are determined by comparing total receipts to total deposits; the composition of these monies is not reconciled during the daily shortage/overage determination.

## 3. No Fee Identification Log

The license office does not record some identification cards (IDs) issued for no fees on the office log, as required by the DOR.

No fee IDs are issued at no cost to the 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 April 1 through May 8, 2015, noted 2 of the 11 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

*Either the office manager or contract manager will examine each day's listing sheet to make sure all no fee transactions are recorded properly on the ID log.*



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# Department of Revenue

## St. Charles Contract License Office

### Organization and Statistical Information

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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<br>\$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<br>\$5.00 exceeding three years |
| Notice of lien                        | \$2.50   |



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Department of Revenue  
St. Charles Contract License Office  
Organization and Statistical Information

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In November 2013, the DOR solicited bids for the St. Charles Contract License Office. The office was awarded to License Management, LLC, effective February 6, 2014.

For the year ended June 30, 2015, the office collected and remitted to the DOR \$23,516,729, and retained processing fees totaling \$548,278. Additionally, as part of the bidding process, the office agreed to return 10 percent of its processing fees to the state. For the year ended June 30, 2015, the office returned to the state processing fees totaling \$55,309.

## Personnel

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

Matthew Carroll, Contract Manager  
Leslie Breeding, Office Manager