



Office of Missouri State Auditor  
**Nicole Galloway, CPA**

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Department of Revenue  
Perryville Contract License Office



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Perryville Contract License Office

Background	The Department of Revenue (DOR) has appointed 177 contract agents to operate contract license offices across the state. These offices process transactions to 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 1 of 59 transactions (2 percent) reviewed. Personnel also erroneously applied a trade-in credit amount for 1 of 23 (4 percent) applicable transactions reviewed.
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. License office management personnel did not perform independent supervisory reviews for 5 of 10 (50 percent) prepayment void transactions that occurred from April 20 to May 3, 2016, and license office personnel did not obtain customer acknowledgment for 3 of 6 applicable 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, and a manual receipt slip did not include the method of payment.

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

## Perryville Contract License Office

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## **NICOLE GALLOWAY, CPA** **Missouri State Auditor**

Honorable Jeremiah W. (Jay) Nixon, Governor  
and

John Mollenkamp, Acting Director  
Department of Revenue  
Jefferson City, Missouri  
and

MCLB Management Company, LLC, Contract Agent  
Perryville Contract License Office  
Perryville, Missouri

We have audited certain operations maintained and established by the Perryville 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, 2016. The objectives of our audit were to:

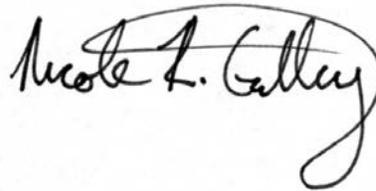
1. Evaluate the office's internal controls related to handling of various fees and tax transactions.
2. Evaluate the office's compliance with certain contractual and statutory provisions.

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 Perryville Contract License Office.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Keriann Wright, MBA, CPA
Director of Audits:	Douglas J. Porting, CPA, CFE
Audit Manager:	Susan J. Beeler, CPA, CIA
In-Charge Auditor:	Joshua Shope, M.Acct., CPA
Audit Staff:	Valerie A. Dobson

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

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**1. Sales Tax Transactions**

The license office does not always retain adequate documentation to support purchase price amounts on vehicle sales tax transactions. In addition, the license office does not always ensure sales tax transactions are properly entered into the computerized system, resulting in incorrect sales tax collections.

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 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 license office staff to calculate sales tax due.

We reviewed sales and use tax transactions processed in the license office from April 20 to April 22, 2016, and noted the following concerns:

Purchase prices

License office personnel did not retain sufficient documentation to support the purchase price for 1 of 59 transactions (2 percent) reviewed. For this transaction, 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 value from DOR personnel and determined the reported purchase price for the transaction was \$7,540 lower than the estimated fair market value, resulting in an apparent \$469 reduction in taxes collected.

When we brought this transaction to the DOR's attention, the DOR sent a letter to the taxpayer requiring the taxpayer to provide a notarized bill of sale to support the purchase price or pay additional taxes based on the fair market value of the vehicle. As of August 2016, no action had been taken by the taxpayer to pay the additional amount due or to provide a notarized bill of sale.

Trade-in amount

License office personnel erroneously applied a trade-in credit amount for 1 of 23 (4 percent) applicable transactions reviewed. License office personnel applied a trade-in credit amount of \$19,900 instead of the \$19,000 listed on the bill of sale, thereby reducing the net purchase price on which taxes were calculated. The transaction resulted in \$72 reduction in taxes collected. The DOR sent an additional tax due letter to the taxpayer and received full payment from the taxpayer in June 2016.



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## Conclusion

To ensure the purchase price is accurate and the proper sales tax amounts are charged to customers, the license office should comply with DOR procedures requiring adequate documentation of purchase prices, and ensure sales tax transactions are properly entered into the computerized system.

## Recommendations

The license office ensure compliance with DOR procedures requiring adequate documentation to support the purchase price for vehicle sales and use tax transactions, and 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.

## Auditee's Response

*The license office provided the following response:*

*Item 1. Auditee asserts that it did comply with DOR procedure for the transaction in question. The transaction involved a motorcycle that was over 10 years old at a sales price of \$1,000. Auditee maintains that this did not meet the threshold of an "extremely low" sales price as defined in MV-09 Section II-B. An example given in the reference section for vehicles 10 years and older is as follows: "The purchase price reflects \$100 for a 2004 Mercedes and there is no documentation explaining the reason for the low price." Auditee maintains that \$1,000 is not an "extremely low" sales price for a 2005 "Big Dog" (actual manufacturer) motorcycle and it is not an easily recognizable brand such as Harley Davidson or BMW. Subsequent research revealed that the motorcycle in question sold for \$5,500 in 2010, thus it is entirely reasonable to assume that \$1,000 is a legitimate sales price and certainly does not fall under the "extremely low" sales price as defined in DOR regulations and procedures.*

*Item 2. Auditee acknowledges fault in a transaction that resulted in a reduction of taxes owed by a typographical error entering \$19,900 as the trade-in credit instead of the actual trade-in credit of \$19,000.*

*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 and possibly developing training webinars or regional trainings to assist offices. The DOR will also continue to publish articles in the License Office News to remind all offices to follow procedures related to vehicle purchase price.*

## Auditor's Comment

The license office is responsible for ensuring it follows DOR procedures related to reasonableness of purchase prices. If office personnel do not recognize the make of a vehicle and the taxpayer does not provide a



notarized bill of sale, personnel should perform research to find out more information about the vehicle. Without such research, the office cannot ensure the purchase price is reasonable.

## 2. Prepayment Void Transactions

License office management personnel did not perform independent supervisory reviews for 5 of 10 (50 percent) prepayment void transactions that occurred from April 20 to May 3, 2016. In each instance a supervisor reviewed and approved her own transaction. In addition, license office personnel did not obtain customer acknowledgment for 3 of 6 applicable transactions.

A prepayment void transaction occurs when a transaction is entered in the Titling and Registration Intranet Processing System (TRIPS) 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 an independent supervisory review of voided transactions, and customer acknowledgment of a void transaction if a new one is not completed or is for a lesser amount. In addition, independent supervisory review and customer acknowledgement help ensure the transaction was voided for a valid reason.

### Recommendation

The license office ensure all prepayment void transactions are reviewed and approved by a supervisor independent of the original transaction, and supported by customer acknowledgement, when applicable.

### Auditee's Response

*Auditee acknowledges the deficiency. The DOR policy of requiring independent supervisory review was instituted just prior to this audit. Previously, all prepayment voids were reviewed by our DOR field representative and all clerks were not aware of the change in policy and the requirement that the customer sign at the bottom of the page acknowledging that the transaction was voided. All clerks and management are now completely informed of the new policy and are in compliance.*

### Auditor's Comment

The DOR policy has always required a supervisory review of prepayment void transactions. These supervisory reviews need to be independent to ensure the prepayment void transactions are handled properly. The DOR updated the policy in February 2016 to clarify this issue. In addition, the DOR policy has required customer acknowledgment of void transactions in certain situations since 2011.



### 3. Accounting Controls and Procedures

The license office needs to improve controls and procedures over monies collected. For the year ended June 30, 2016, the office collected and remitted to the DOR approximately \$5.1 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. We reviewed receipt transactions processed in the office from April 20 to April 22, 2016, and from May 31 to June 1, 2016. Our review determined the composition of deposits did not agree to the composition of receipts recorded for the April 21, April 22, and May 31, 2016, deposits. We identified credit card and check payments recorded as cash payments, and cash payments recorded as check payments. In addition, the license office did not record the method of payment on a manual receipt slip issued for a driving record purchase on April 20, 2016. The license office issues manual receipt slips for 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.

#### 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.

#### Auditee's Response

*Auditee acknowledges that several transactions were misidentified as to method of payment. Auditee accepts auditor's recommendations and will improve controls to make sure method of payment is accurately recorded, reviewed, and reconciled.*

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# Department of Revenue

## Perryville 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 177 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 (excluding action organizations) that are exempt from taxation (not-for-profit) under the Internal Revenue Code, with special consideration given to organizations and entities that reinvest a minimum of 75 percent of the net proceeds to charitable organizations in Missouri. Priority must also be given to 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 3½ to 5½ years. The contract may be canceled at the discretion of the DOR.

The contract license offices process transactions to 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 process transactions to 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). 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 Sections 136.055.1 and 301.140.4, 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 year
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
Temporary permit	\$5.00
Other miscellaneous fees	\$2.00



Department of Revenue  
Perryville Contract License Office  
Organization and Statistical Information

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In January 2014, the DOR solicited bids for the Perryville Contract License Office. The office was awarded to MCLB Management Company, LLC, effective June 19, 2014.

For the year ended June 30, 2016, the office collected and remitted to the DOR \$5,091,366 and retained processing fees totaling \$128,445. Additionally, as part of the bidding process, the office agreed to return 4 percent of its processing fees to the state. For the year ended June 30, 2016, the office returned to the state processing fees totaling \$5,121.

Pursuant to Sections 301.020, 302.171, and 301.3033, RSMo, the licensing process allows customers to contribute to the organ donor program, blindness awareness program, and/or the World War I Memorial Trust Fund. For the year ended June 30, 2016, the office collected and remitted to the DOR \$37, \$52, and \$39 in donations for the organ donor program, blindness awareness program, and the World War I Memorial Trust Fund, respectively.

## Personnel

At June 30, 2016, key office personnel were as follows:

Gerry Jones II, Contract Manager  
Della Fleetwood, Office Manager