



Office of Missouri State Auditor
Nicole Galloway, CPA

Department of Revenue
Fayette Contract License Office

Report No. 2017-037

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Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Fayette 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.
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 an independent supervisory review of voided transactions, 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 management personnel did not perform independent supervisory reviews for all 10 prepayment void transactions that occurred from October 19 to November 15, 2016. In addition, license office personnel did not document the reasons for voiding 6 of these transactions or obtain customer acknowledgement for 2 of 3 applicable transactions.
Accounting Controls and Procedures	The license office does not issue manual receipt slips for driving record purchases. The license office must issue manual receipt slips for all these transactions because they are processed outside of the computerized system.

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

Fayette Contract License Office

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NICOLE GALLOWAY, CPA

Missouri State Auditor

Honorable Eric R. Greitens, Governor
and

Joel W. Walters, Director
Department of Revenue
Jefferson City, Missouri
and

Advantage Bookkeeping and Tax Service LLC, Contract Agent
Fayette Contract License Office
Fayette, Missouri

We have audited certain operations maintained and established by the Fayette 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 December 31, 2016. The objectives of our audit were to:

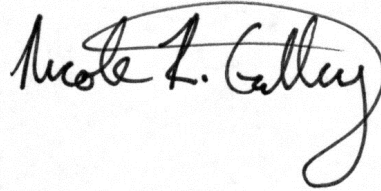
1. Evaluate the office's internal controls related to handling of various fees and tax transactions.
2. Evaluate the office's compliance with certain contractual and statutory provisions.

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 applicable contract, grant agreement, 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 Fayette 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:

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:	Shelbi M. Becker

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

1. Prepayment Void Transactions

License office management personnel did not perform independent supervisory reviews for all 10 prepayment void transactions that occurred from October 19 to November 15, 2016. In addition, license office personnel did not document the reasons for voiding 6 of these transactions or obtain customer acknowledgement for 2 of 3 applicable transactions.

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 an independent supervisory review of voided transactions, 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. In addition, performing independent supervisory review, 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 transactions are reviewed and approved by a supervisor, and prepayment void documentation is maintained, including the reason for the void transaction and customer acknowledgment, when applicable.

Auditee's Response

The contract manager acknowledges the proper procedures were not followed before the audit. Since the last day of the audit, management has reviewed proper procedures with all employees to ensure prepayment voids are completed correctly. At the time of the audit, the office had been through two office manager changes and this procedure was not followed correctly. The current office manager has made a step-by-step instruction postcard and taped it to the printer so that all employees can quickly see what should be done for each prepayment void. The office has been in compliance by reviewing and approving all prepayment voids as required since day two of the audit.

2. Accounting Controls and Procedures

The license office does not issue manual receipt slips for driving record purchases. Driving records can be purchased for various reasons, such as an employer verifying an individual's driving record for business purposes. The license office must issue manual receipt slips for these transactions because they are processed outside of the computerized system. Office personnel stated that they were not aware they needed to issue manual receipt slips for driving record purchases.

DOR official procedures require a receipt slip be issued for all sales of driving records. By not issuing these receipt slips, the office cannot demonstrate the related monies were accounted for properly.



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Fayette Contract License Office
Management Advisory Report - State Auditor's Findings

Recommendation

The license office ensure receipt slips are issued and retained for all driving record sales.

Auditee's Response

The office was unaware of the driving record receipt form 4696 at the time of the audit. Since the audit, all driving records issued have been issued a receipt form 4696. We felt that the money was accounted for on the system accounting report. We have been reconciling the receipts for driving records with the system accounting report since the audit.

Department of Revenue

Fayette Contract License Office

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 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 3 ½ to 5 ½ 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
Fayette Contract License Office
Organization and Statistical Information

In May 2014, the DOR solicited bids for the Fayette Contract License Office. The office was awarded to Advantage Bookkeeping and Tax Service LLC, effective August 12, 2014.

For the year ended December 31, 2016, the office collected and remitted to the DOR \$1,432,220, and retained processing fees totaling \$36,711. Under the terms of the contract, the office was not required to return a percentage of its processing fees to the state.

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 December 31, 2016, the office collected and remitted to the DOR \$19, \$36, and \$41 in donations for the organ donor program, blindness awareness program, and the World War I Memorial Trust Fund, respectively.

Personnel

At December 31, 2016, key office personnel were as follows:

Lisa Asbury, Contract Manager
Sarah Morrow, Office Manager