



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

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Department of Revenue  
**Hermann Contract License Office**

Report No. 2017-063  
July 2017

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**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Hermann 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 acknowledgment if a new transaction is not completed or is for a lesser amount. License office management personnel did not perform independent supervisory reviews for 6 of 10 prepayment void transactions that occurred from September 27 through October 18, 2016. In addition, license office personnel did not obtain customer acknowledgment for all 3 applicable transactions or document the reasons for voiding 1 of these transactions.
Statutory Compliance	License office personnel do not normally inquire if customers want to donate to the organ donor program, blindness awareness program, and the World War I Memorial Trust Fund, as required by state law.

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

## Hermann 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  
Hermann Area Chamber of Commerce, Contract Agent  
Hermann Contract License Office  
Hermann, Missouri

We have audited certain operations maintained and established by the Hermann 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:

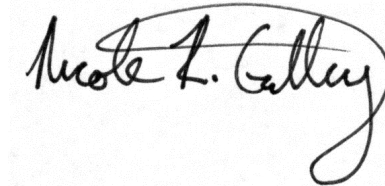
1. Evaluate the office's internal controls related to handling of various fees and tax transactions.
2. Evaluate the office's compliance with certain contractual and statutory provisions.

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) a deficiency in internal controls, and (2) noncompliance with statutory provisions. The accompanying Management Advisory Report presents our findings arising from our audit of the Hermann 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:

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

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# Department of Revenue

## Hermann Contract License Office

### Management Advisory Report - State Auditor's Findings

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#### **1. Prepayment Void Transactions**

License office management personnel did not perform independent supervisory reviews for 6 of 10 (60 percent) prepayment void transactions that occurred from September 27 through October 18, 2016. In each instance a supervisor reviewed and approved her own transaction. In addition, license office personnel did not obtain customer acknowledgment for all 3 applicable transactions or document the reasons for voiding 1 of these 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.

Department of Revenue official procedures require an independent supervisory review of voided transactions, customer acknowledgment of a void transaction if a new one is not completed or is for a lesser amount, and a documented reason for voiding a transaction. In addition, performing independent supervisory review, obtaining customer acknowledgment, and documenting the reason for voiding a transaction 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 prepayment void documentation is maintained, including customer acknowledgment, when applicable, and the reason the voiding the transaction.

#### **Auditee's Response**

*We are now aware of the 2016 policy change requiring prepayment void transactions to be reviewed by an independent person, and that policy change has now been implemented. Also, all office personnel are now obtaining customer acknowledgment and documenting the reasons for voiding any transactions.*

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#### **2. Statutory Compliance**

The Office Manager stated license office personnel do not normally ask if customers want to donate to the organ donor program, blindness awareness program, and/or the World War I Memorial Trust Fund, as required by state law. A "Yes" or "No" to these donation questions must be recorded in TRIPS and/or the driver license system in order to complete each transaction. During the year ended December 31, 2016, the office collected only \$3 for these donations.

Sections 301.020 and 302.171, RSMo, require personnel to inquire whether customers registering a motor vehicle and applying for a driver's license are interested in making a \$1 donation to the organ donor program and blindness awareness program. Section 301.3033, RSMo, requires personnel to inquire whether customers purchasing a specialty military license plate



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are interested in making a \$10 donation to the World War I Memorial Trust Fund. For all other license plate purchases, office personnel are required to inquire whether customers are interested in making a \$1 donation to this fund.

## Recommendation

The license office ensure office staff inquire of each customer whether the customer is interested in donating to the organ donor program, blindness awareness program, and/or World War I Memorial Trust Fund.

## Auditee's Response

*The license office is now following the statute by asking customers if they want to donate to the organ donor program, blindness awareness program and/or the World War I Memorial Trust Fund.*

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## Department of Revenue

### Hermann 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 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





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In January 2014, the DOR solicited bids for the Hermann Contract License Office. The office was awarded to the Hermann Area Chamber of Commerce, effective August 1, 2014.

For the year ended December 31, 2016, the office collected and remitted to the DOR \$2,513,304, and retained processing fees totaling \$60,011. 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 \$1, \$0, and \$2 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:

June Diebal, Contract/Office Manager