



Thomas A. Schweich
Missouri State Auditor

REVENUE

Branson Contract License Office

September 2014
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CITIZENS SUMMARY

Findings in the audit of the Branson Contract License Office

Background	The Department of Revenue (DOR) has appointed 178 contract agents to operate contract license offices. 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 supervisory review of voided transactions, but the office manager did not document approval for 2 of 10 (20 percent) void transactions that occurred from March 10 to March 13, 2014.
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 5 deposits reviewed, and 3 of 12 manual receipt slips (25%) did not include the method of payment.
Contract Compliance	License office staff did not properly maintain the inventory records for 3 of 25 items reviewed. We found 3 items that were not listed in the inventory records, and a total of 5 items could not be located during the last two semi-annual inventories, for which the DOR required a \$114 reimbursement.

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

Branson Contract License Office

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THOMAS A. SCHWEICH

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
John R. Mollenkamp, Acting Director
Department of Revenue
Jefferson City, Missouri
and
Koester & Koester, LLC, Contract Agent
Branson Contract License Office
Branson, Missouri

We have audited certain operations maintained and established by the Branson 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, 2014. The objectives of our audit were to:

1. Evaluate the office's internal controls related to the handling of various fee 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) noncompliance with a contractual provision.

The accompanying Management Advisory Report presents our findings arising from our audit of the Branson Contract License Office.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	John Luetkemeyer, CPA
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In-Charge Auditor:	Corey McComas, M. Acct., CPA
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Department of Revenue
Branson Contract License Office
Management Advisory Report - State Auditor's Findings

1. Prepayment Void Transactions

The license office manager did not document approval for 2 of 10 (20 percent) prepayment void transactions that occurred from March 10 to March 13, 2014.

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 a supervisory review of voided transactions. In addition, a supervisory review of voided transactions helps ensure transactions were voided for valid reasons.

Recommendation

The license office ensure all prepayment void transactions are reviewed and approved by office management.

Auditee's Response

We agree with the Auditor's recommendation. Office policy is when cashiers have prepayment voids, to take paperwork to management to be reviewed and signed off before next transaction has started.

2. Accounting Controls and Procedures

The license office needs to improve controls and procedures over monies collected. For the year ended June 30, 2014, the office collected and remitted to the DOR approximately \$7.3 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 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 March 10 to March 12, 2014, and the May 9 and May 12, 2014, deposits. A review of these deposits identified cash payments recorded as check payments, check payments recorded as credit card and/or cash payments, and credit card payments recorded as check and/or cash payments. In addition, 3 of 12 manual receipt slips issued for driving record purchases and fees collected for the reinstatement of driving privileges did not include the method of payment. The license office must issue manual receipt slips for these transactions because they are processed outside of the computerized system.

DOR official procedures for license offices provide 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 manual receipt slips.

Auditee's Response

We agree with the Auditor's recommendation. Spoke with staff to make sure clerks check payment method before finalizing, if error occurs make sure clerk lists correct payment method and reason why on trips receipt.

3. Contract Compliance

The license office does not always accurately update perpetual inventory records, as required by the DOR agent contract. According to office management, the office tries to maintain a 30-day stock of inventory items such as license plates, tabs, decals, and permits.

License office staff did not properly maintain the inventory records for 3 of 25 items reviewed. We found 3 items that were not listed in the inventory records. Also, during the last two semi-annual inventories, a total of 5 items could not be located. As a result, the DOR required the office to reimburse the DOR \$114 for the missing items.

The license office increases the risk of undetected theft and/or impropriety when inventory records are not updated accurately and on a timely basis. In addition, the DOR agent contract requires the license office to maintain up-to-date perpetual inventory records.

Recommendation

The license office maintain accurate perpetual inventory records, as required by the DOR agent contract.

Auditee's Response

We agree with the Auditor's recommendation. Office policy is to maintain inventory book daily, review pages to make sure inventory is correctly removed and totals are in order.

Department of Revenue

Branson Contract License Office

Organization and Statistical Information

Pursuant to Section 136.030(2), 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. Starting in August 2013, contracts are typically for a period of 4 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 the selective services, 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



Department of Revenue
Branson Contract License Office
Organization and Statistical Information

In December 2011, the DOR solicited bids for the Branson Contract License Office. The office was awarded to Koester & Koester, LLC, effective January 19, 2012.

For the year ended June 30, 2014, the office collected and remitted to the DOR \$7,345,472, and retained processing fees totaling \$203,588. 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, 2014, the office returned to the state processing fees totaling \$8,236.

Personnel

At June 30, 2014, key office personnel were as follows:

David Koester Sr., Contract Manager
Kimberly Peck, Office Manager