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Missouri State Auditor

REVENUE

Monroe City Contract License Office

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CITIZENS SUMMARY

Findings in the audit of the Monroe City 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 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 determine the sales tax rate to be charged based on the taxpayer's address. License office personnel did not retain sufficient documentation to support the purchase price for 3 of 23 (13 percent) transactions reviewed. For 1 of 19 (5 percent) transactions reviewed that had addresses in the Department of Revenue computer system, license office staff charged a lower tax rate (Ralls County rate) than required (City of O'Fallon rate), based on the taxpayer's address.
Segregation of Duties	The license office does not have adequate segregation of duties and there is no documented oversight by the contract agent. The office has 1 main employee who is responsible for multiple duties, including receiving monies, recording receipts and transactions in the accounting system, reconciling the bank account to the accounting records, and maintaining the inventory. There is no evidence that the contract agent reviews this work, which increases the risk of loss or misuse of funds.
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. The license office contract manager or contract agent did not document approval for all 10 prepayment void transactions that occurred from March 12 to March 26, 2015, and license office personnel did not obtain customer acknowledgment for 3 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 5 deposits reviewed. In addition, the license office did not maintain manual receipt slips for driving record purchases, which are processed outside of the computer system.

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

Monroe City 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
City of Monroe City, Contract Agent
Monroe City Contract License Office
Monroe City, Missouri

We have audited certain operations maintained and established by the Monroe City 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:

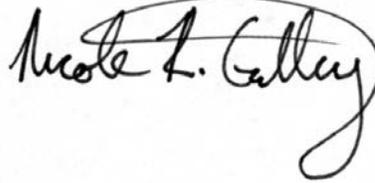
1. Evaluate the office's internal controls related to handling of various fees and tax transactions.
2. Evaluate the office's compliance with certain contractual and statutory provisions.

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 Monroe City Contract License Office.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is written in a cursive style with a large, looping "y" at the end.

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. Hunter O'Donnell, M.Acct.

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Management Advisory Report - State Auditor's Findings

1. Sales Tax Transactions

The license office does not always retain adequate documentation to support purchase price amounts on vehicle sales tax transactions, and the license office does not always charge the correct sales tax rate.

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.

License office personnel determine the sales tax rate to be charged based on the taxpayer's address. Most addresses are listed in the DOR's computerized system, which recommends a tax rate for each transaction based on the address. If the system is unable to provide a tax rate, DOR official procedures require the clerk to ask the taxpayer if he or she lives within city limits and then confirm this declaration. Ways to confirm the declaration include a property tax receipt or letter from the tax jurisdiction.

We reviewed sales and use tax transactions processed in the license office from March 11 to March 13, 2015, and noted the following concerns:

Purchase prices

License office personnel did not retain sufficient documentation to support the purchase price for 3 of 23 transactions (13 percent) reviewed. For these 3 transactions, 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 values from DOR personnel and determined the reported purchase prices for the 3 transactions totaled \$7,167 lower than the estimated fair market values, resulting in a \$543 reduction in taxes collected.

When we brought these transactions to the DOR's attention, the DOR sent additional tax due letters to the 3 taxpayers. As of October 2015, no action had been taken by the taxpayers to pay the additional amounts due or to protest these additional assessments.

Sales tax rates

For 1 of the 19 (5 percent) transactions reviewed that had addresses in the DOR computerized system, license office staff charged a lower tax rate than required. License office staff charged the taxpayer the Ralls County tax rate, when the City of O'Fallon tax rate should have been charged, based on the



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taxpayer's address. The transaction resulted in a \$450 reduction in taxes collected.

When we brought this transaction to the DOR's attention, the DOR sent an additional tax due letter to the taxpayer. As of October 2015, no action had been taken by the taxpayer to pay the additional amount due or to protest this additional assessment.

Conclusions

To ensure the purchase price is accurate and the proper tax rates are charged, the license office should comply with DOR procedures requiring adequate documentation of purchase price and verification of the taxpayer's address in the computerized system.

During February 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 included unusually low sales prices and no notarized bill of sale, a missing surrendered title, required forms omitted, an incorrect purchase date, and an incorrect vehicle make.

Recommendation

The license office ensure compliance with DOR procedures requiring adequate documentation to support the purchase price for vehicle sales and use tax transactions. In addition, the license office should ensure the correct sales tax rate for the taxpayer's address is charged.

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:

We will request a notarized bill of sale from the seller if the purchase price seems questionably low, if it was sold for parts, etc.

With regards to the individual that lived in O'Fallon, at the time of the transaction he told us he had a residence in Ralls County and we verified he paid personal property taxes in Ralls County. However, after discussion with you about the DOR policy, regardless of what the customer says, we are to base our sales tax on what address is stated on the title paperwork (which was O'Fallon in this instance). We will ensure we follow this DOR policy in the future.

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.

2. Segregation of Duties

The license office does not have adequate segregation of duties and there is no documented oversight by the contract agent.

The office has one employee (office manager) who is responsible for the operation and management of the office, including receiving monies, recording receipts and transactions in the accounting system, reconciling the bank account to the accounting records, and maintaining the inventory, such as license plates and tabs. The office also employs one part-time employee to record receipts and transactions in the accounting system when the office manager is not available. In addition, an employee of the contractor makes bank deposits for the license office. All other operation and management functions are handled solely by the office manager.

Although DOR personnel periodically review and evaluate the contract office procedures and records, there is no evidence the contract agent or another independent individual provides adequate supervision or review of the work performed by the office manager.

To reduce the risk of loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequate safeguarded. If proper segregation of duties is not possible, the contract agent or another independent individual should review the work performed by the office manager and investigate any unusual transactions.

Recommendation

The license office ensure a supervisory or independent review of the work performed by the office manager is completed, and investigate unusual items and variances.

Auditee's Response

On a weekly basis the Contract Manager will review and sign off on the agent fees deposited in the city's account with the Agent Fee reports from the license office. In addition, the part-time office worker will verify random transactions on a daily basis in the presence of the Contract Manager and will document this review.

3. Prepayment Void Transactions

The license office contract manager or contract agent did not document approval for all 10 prepayment void transactions that occurred from March 12 to March 26, 2015. In addition, license office personnel did not obtain customer acknowledgment for any of the 3 applicable transactions processed during the same time period.



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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.

DOR official procedures require a supervisory review of voided transactions, and customer acknowledgement of a void transaction if a new one is not completed or is for a lesser amount. In addition, supervisory review and customer acknowledgement help ensure the transaction was voided for a valid reason.

In most license offices, the office manager performs these supervisory reviews. However, due to the small size of this license office, the office manager is the primary employee. She performed 9 of the 10 transactions reviewed, including all 3 transactions requiring a customer signature. Therefore, to ensure DOR procedures are followed and prepayment void transactions are proper, the contract agent or another independent individual should be performing supervisory reviews of the office manager's transactions (see MAR finding number 2).

Recommendation

The license office ensure all prepayment void transactions are reviewed and approved by office management and supported by customer acknowledgment, when applicable.

Auditee's Response

On the bottom quarter of the page, we will document the reason for the void and have the customer sign it as well as the license office personnel.

At the end of each day, the void report will be compared with the voided documents and signed off on by license office personnel. Shirley Arch (part-time employee) will review any voids done by Joyce Vilorio; Joyce Vilorio will review any voids done by Shirley Arch.

4. 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 \$1.6 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 11 to March 13, 2015, and for the May 4 and May 5, 2015 deposits. A review of these deposits identified check and credit card payments recorded as cash payments, and cash payments recorded as check payments. In addition, the license office did not maintain manual receipt slips for driving record purchases. The



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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 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. In addition, DOR official procedures require a receipt slip be issued for all sales of driving records.

During February 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. In addition, the license office should ensure receipt slips are issued and retained for all driving record sales.

Auditee's Response

If there is an error when selecting the method of payment, it will be documented on the audit copy as to why there is a difference. The composition of monies received will be reconciled to the accounting records and to deposits on a daily basis. Receipt slips will be issued and retained for all driving record sales.

Department of Revenue

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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 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 \$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



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Organization and Statistical Information

In October 2013, the DOR solicited bids for the Monroe City Contract License Office. The office was awarded to the City of Monroe City, effective December 27, 2013.

For the year ended June 30, 2015, the office collected and remitted to the DOR \$1,641,632, and retained processing fees totaling \$42,249. Under the terms of the contract, the office was not required to return a percentage of its processing fees to the state.

Personnel

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

Jackie Pangborn, Contract Manager
Joyce Vilorio, Office Manager