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REVENUE

Warrenton Contract License Office

November 2015

Report No. 2015-109

http://auditor.mo.gov

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CITIZENS SUMMARY

Findings in the audit of the Warrenton 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 did not retain sufficient documentation to support the purchase price for 5 of 44 (11 percent) transactions reviewed. For 1 of 18 (6 percent) transactions reviewed, license office staff incorrectly applied a credit amount on the transaction.
No Fee Identification Log	No fee identification cards (IDs) are issued at no cost to the ID holder to replace previously purchased IDs that printed illegibly or contained a misspelled name. Our review found 5 of the 16 no fee IDs issued between January 1 and June 8, 2015, were not listed on the office log, as required by the DOR.

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
Warrenton Contract License Office
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Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Nia Ray, Director
Department of Revenue
Jefferson City, Missouri
and
Wentzville Agency Management, LLC, Contract Agent
Warrenton Contract License Office
Warrenton, Missouri

We have audited certain operations maintained and established by the Warrenton 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 Warrenton Contract License Office.

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
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In-Charge Auditor:	Joyce Thomson
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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, and the license office does not always apply credit amounts properly.

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.

In addition, a taxpayer may receive a sales tax allowance on a vehicle purchase if another vehicle is sold by the taxpayer within 180 days before or after the purchase date. DOR official procedures require license office staff to obtain the bill of sale or notice of sale for both vehicles to verify the purchase dates are within the 180-day requirement.

We reviewed sales and use tax transactions processed in the license office from January 13 to January 15, 2015, and noted the following concerns:

Purchase prices

License office personnel did not retain sufficient documentation to support the purchase price for 5 of 44 transactions (11 percent) reviewed. For these 5 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 5 transactions totaled $12,001 lower than the estimated fair market values, resulting in a $806 reduction in taxes collected.

When we brought these transactions to the DOR's attention, the DOR sent additional tax due letters to the 5 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 credits

License office staff incorrectly applied a credit amount for 1 of the 18 (6 percent) applicable transactions reviewed. License office staff applied a sales tax allowance credit on the transaction based on the sale of a previous vehicle by the taxpayer. Because the previous vehicle was sold more than 180 days prior to the purchase of the current vehicle, no sales tax allowance credit should have been allowed. The license office manager stated license

office staff should be verifying all credit amounts applied to transactions and is unsure why office staff allowed this credit when it was outside the 180-day allowable timeframe. The transaction resulted in a $273 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 and received full payment from the taxpayer in September 2015.

Conclusions

To ensure the purchase price and credits applied are accurate, the license office should comply with DOR procedures requiring adequate documentation of purchase price and proper verification of credit documentation.

During April 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 five transactions with unusually low sales prices and no notarized bill of sale, and one transaction with an erroneously overstated credit amount.

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 verify all credit documentation applied to sales and use tax transactions.

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:

Purchase prices:
Regarding the transactions with questionably low purchase prices. The DOR has published guidance in the October 16, 2015 edition of the "License Offices News" that provides expanded guidance to offices in regards to the sale prices of vehicles older than ten years. Our clerks have been reminded to follow that guidance and if the sales price appears to be unusually low, to check the Kelly Blue Book. If the customer does not have a notarized bill of sale, the clerks are to inform the customer that they will have to pay sales taxes based on the Kelly Blue Book price or obtain a notarized bill of sale. Older vehicles can vary tremendously in their value depending on the condition and care given to the vehicle.

Sales tax credits:
The audit found one transaction where the sales tax credit was applied incorrectly. This was a clerical error made by a new clerk. Our clerks are trained to apply the sales tax credits according to DOR regulations.

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. No Fee Identification Log

The license office does not record some identification cards (IDs) issued for no fees on the office log, as required by the DOR.

No fee IDs are issued at no cost to the holder to replace IDs previously purchased for reasons such as an ID printing illegibly or having a misspelled name. Our review of no fee IDs issued in the license office between January 1 and June 8, 2015, noted 5 of the 16 no fee IDs issued during that period were not listed on the log maintained by the office. The license office is required by the DOR to maintain the log to document the reason for the no fee ID issuance. DOR personnel also use the logs to review for accurate processing of ID transactions and to ensure the reasons for issuing no fee IDs are reasonable.

Maintaining an accurate and complete ID log is needed to demonstrate the proper issuance of no fee IDs.

Recommendation

The license office ensure all no fee ID transactions are properly recorded on the office log.

Auditee's Response

We have reviewed procedures will all employees and stressed that they make sure to record all "No Fee" transactions in the log. All of our part-timers are relatively new employees with less than a year's experience. New employees in the process of completing transactions and if they are feeling a little pressure because of other customers waiting for service can forget to complete the log recordings. Besides reviewing with our employees, we will periodically bring up the subject as a reminder.

Department of Revenue
Warrenton 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 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

In November 2013, the DOR solicited bids for the Warrenton Contract License Office. The office was awarded to Wentzville Agency Management, LLC, effective May 23, 2014.

For the year ended June 30, 2015, the office collected and remitted to the DOR $6,076,431, and retained processing fees totaling $158,097. Additionally, as part of the bidding process, the office agreed to return 5 percent of its processing fees to the state. For the year ended June 30, 2015, the office returned to the state processing fees totaling $7,925.

Personnel

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

John Harris II, Contract Manager
Tracey Helfer, Office Manager