Office of Missouri State Auditor

Nicole Galloway, CPA

Department of Revenue Warrensburg Contract License Office

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CITIZENS SUMMARY

Findings in the audit of the Warrensburg 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.
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 1 of 60 transactions (2 percent) reviewed.

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
Warrensburg Contract License Office
Table of Contents

State Auditor's Report 2

Management Advisory Report - State Auditor's Finding
Sales Tax Transactions....4

Organization and Statistical Information 6

NICOLE GALLOWAY, CPA
Missouri State Auditor

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

We have audited certain operations maintained and established by the Warrensburg 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, 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 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) a deficiency in internal controls, and (2) no significant noncompliance with contractual or statutory provisions. The accompanying Management Advisory Report presents our finding arising from our audit of the Warrensburg Contract License Office.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Keriann Wright, MBA, CPA
Director of Audits:	Douglas J. Porting, CPA, CFE
Audit Manager:	Susan J. Beeler, CPA, CIA
In-Charge Auditor:	Joshua Shope, M.Acct., CPA
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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.

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 did not retain sufficient documentation to support the purchase price for 1 of 60 transactions (2 percent) reviewed. For this transaction, 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 value from DOR personnel and determined the reported purchase price for the transaction was $2,684 lower than the estimated fair market value, resulting in an apparent $224 reduction in taxes collected.

When we brought this transaction to the DOR's attention, the DOR sent a letter to the taxpayer requiring the taxpayer to provide a notarized bill of sale to support the purchase price or pay additional taxes based on the fair market value of the vehicle. In June 2016, the taxpayer provided a notarized bill of sale supporting the purchase price, so the taxpayer owed no additional taxes. However, license office staff should have obtained a notarized bill of sale at the time the transaction was processed to support the low purchase price.

To ensure the purchase price is accurate, the license office should comply with DOR procedures requiring adequate documentation of purchase prices.

Recommendations

The license office ensure compliance with DOR procedures requiring adequate documentation to support the purchase price for vehicle 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:

The office acknowledges the error made on this one transaction. However, the current DOR policy MV V-09 regarding verification of purchase prices is vague. The wording "extremely low" is left open to the interpretation of the reader. Clarification of this particular policy would be greatly beneficial to our staff and the citizens of the State of Missouri in complying with DOR policy. Our office will continue to emphasize the need for scrutiny by our staff in regard to this particular procedure. It is our goal to provide efficient and courteous service to our customers while following DOR policies.

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 and possibly developing training webinars or regional trainings to assist offices. The DOR will also continue to publish articles in the License Office News to remind all offices to follow procedures related to vehicle purchase price.

Department of Revenue
Warrensburg 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 3½ to 5½ 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

In October 2014, the DOR solicited bids for the Warrensburg Contract License Office. The office was awarded to License Office Services, LLC, effective January 1, 2015.

For the year ended June 30, 2016, the office collected and remitted to the DOR $12,885,239 and retained processing fees totaling $258,520. Additionally, as part of the bidding process, the office agreed to return 8 percent of its processing fees to the state. For the year ended June 30, 2016, the office returned to the state processing fees totaling $21,147.

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 June 30, 2016, the office collected and remitted to the DOR $2,542, $2,300, and $4,473 in donations for the organ donor program, blindness awareness program, and the World War I Memorial Trust Fund, respectively.

Personnel

At June 30, 2016, key office personnel were as follows:

Linda Rankin, Contract Manager
Paula Gauchat, Office Manager