



Office of Missouri State Auditor
Nicole Galloway, CPA

Department of Revenue
De Soto Contract License Office



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the De Soto 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 a supervisory review of voided transactions and customer acknowledgement if a new transaction is not completed or is for a lesser amount. License office management personnel did not perform independent supervisory reviews for 8 of 11 (73 percent) prepayment void transactions that occurred from March 9 to March 11, 2016, and license office personnel did not obtain customer acknowledgment for 1 of 5 applicable transactions.
Accounting Controls and Procedures	The license office does not issue manual receipt slips for driving record purchases unless requested by the customer. The license office should issue manual receipt slips for all these transactions because they are processed outside of the computerized system.

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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NICOLE GALLOWAY, CPA

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and

John Mollenkamp, Acting Director
Department of Revenue
Jefferson City, Missouri

and

Belle Hart Schmidt, LLC, Contract Agent
De Soto Contract License Office
De Soto, Missouri

We have audited certain operations maintained and established by the De Soto 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:

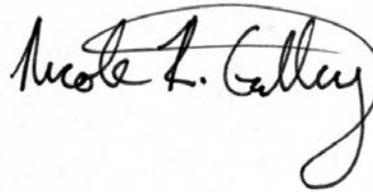
1. Evaluate the office's internal controls related to handling of various fees and tax transactions.
2. Evaluate the office's compliance with certain contractual and statutory provisions.

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) 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 De Soto 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:	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
Audit Staff:	Hunter O'Donnell, M.Acct Valerie A. Dobson

Department of Revenue
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Management Advisory Report - State Auditor's Findings

1. Prepayment Void Transactions

License office management personnel did not perform independent supervisory reviews for 8 of 11 (73 percent) prepayment void transactions that occurred from March 9 to March 11, 2016. In each instance a supervisor reviewed and approved her own transaction. In addition, license office personnel did not obtain customer acknowledgment for 1 of 5 applicable 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 (DOR) official procedures require an independent supervisory review of voided transactions, and customer acknowledgment of a void transaction if a new one is not completed or is for a lesser amount. In addition, independent supervisory review and customer acknowledgement 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 supported by customer acknowledgement, when applicable.

Auditee's Response

The policy described was changed and communicated on February 5, 2016, in the weekly License Office News from the DOR. I had received these weeklies since 2012 and did not realize that they stopped coming into my email after January 29, 2016. I have since printed and reviewed these notices on a weekly basis. I did not, however, know of this policy change. The notice was received on the office's email account for that day, was reviewed but was not followed. We have since the Auditor's Office visit complied with this change. Regarding the transaction that was voided without the customers signature, this was clearly an oversight and the counter clerks have been made aware of the Auditor's Office finding and we have been compliant from that point.

Auditor's Comment

The DOR policy has always required a supervisory review of prepayment void transactions. These supervisory reviews need to be independent to ensure the prepayment void transactions are handled properly. The DOR updated the policy in February 2016 to clarify this issue.

2. Accounting Controls and Procedures

The license office does not issue manual receipt slips for driving record purchases unless requested by the customer. Driving records can be purchased for various reasons, such as an employer verifying an individual's driving record for business purposes. The license office must issue manual receipt slips for these transactions because they are processed outside of the



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computerized system. Office personnel stated they were not aware they needed to issue manual receipt slips for all driving record purchases.

DOR official procedures require a receipt slip be issued for all sales of driving records. By not always issuing these receipt slips, the office cannot demonstrate the related monies were accounted for properly.

Recommendation

The license office ensure receipt slips are issued and retained for all driving record sales.

Auditee's Response

We were viewing the driving record in the same way we handled driver licenses when we're using the CAPTURE program. The driver license itself was the customer's receipt; we would also issue a paper receipt at the customer's request. I've verified that we were in error not filling out Form 4696 (manual receipt slip) on each transaction and since the Auditor's Office visit have been providing and retaining Form 4696 when we collect the money for these transactions.

We do take issue with the finding that "the office cannot demonstrate the related monies were accounted for properly." After speaking with the Auditor's Office, they came to this finding because the driving record receipts were not a part of MEDL and thus there was no way of keeping track of the fees collected without a receipt. This is incorrect, all driver license records are requested on the DMDI system, sent from the state database in Jefferson City's printer session (not printed locally) and charged to the MEDL system showing up on the Driver License Accounting Report under category "Highway Fund 1" listed as MTAS Code 0952, driving record receipts. These charges cannot be reversed. To void a record printed in error we must manually adjust the accounting report, state the reason for removing the charge, void the driving record being removed from the accounting report and send this copy with that days shipment to Central Office in Jefferson City. As to the breakdown of the driving record receipts, regardless of it being cash, check or credit/debit card, the checks are in the office when the accounting is taking place, there is a list of customers on the CSI accounting report showing the time and date the credit card transaction occurred and the cash is reconciled from the sum of the checks and cash. Furthermore the automated QLESS system has the customer register when they come into the office so we know who was there during the day to order a driving record and can determine who paid cash from the checks in the office and credit cards processed on the day in question. We will respectfully disagree with the specific finding that the driving record receipts were not accounted for properly.

Auditor's Comment

The computerized system only tracks the number of driving record purchases made each day. It does not list which cashier processed each driving record purchase or document an initial record of receipt, including



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the method of payment. Without such information, the license office cannot ensure monies collected are accounted for properly. In addition, reviewing discrepancies noted during the daily reconciliation process could be difficult without this information.

Department of Revenue

De Soto 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



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Organization and Statistical Information

In October 2014, the DOR solicited bids for the De Soto Contract License Office. The office was awarded to Belle Hart Schmidt, LLC, effective December 30, 2014.

For the year ended June 30, 2016, the office collected and remitted to the DOR \$7,242,297, and retained processing fees totaling \$161,792. Additionally, as part of the bidding process, the office agreed to return 2 percent of its processing fees to the state. For the year ended June 30, 2016, the office returned to the state processing fees totaling \$3,251.

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 \$531, \$182, and \$149 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:

Paul Schmidt Sr., Contract Manager
Shelley Robinson, Office Manager