



Office of Missouri State Auditor
Nicole Galloway, CPA

Department of Revenue
Grandview Contract License Office



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Grandview 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 2 of 60 transactions (3 percent) reviewed. Personnel also erroneously entered an incorrect purchase price into the computerized system for 1 of 60 (2 percent) transactions reviewed, resulting in a reduction in taxes collected.
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 customer acknowledgement of a void transaction if a new one is not completed or is for a lesser amount. License office personnel did not obtain customer acknowledgment documentation for 2 of 6 applicable prepayment void transactions that occurred from March 16 to March 18, 2016.
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 3 deposits reviewed, and the office did not record the method of payment on 2 manual receipt slips reviewed.
Contract Compliance	License office staff did not properly maintain the perpetual inventory records for 1 of 25 inventory items reviewed.

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

Grandview Contract License Office

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

We have audited certain operations maintained and established by the Grandview 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:

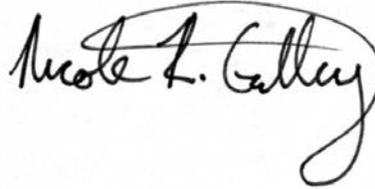
1. Evaluate the office's internal controls related to handling of various fees and tax transactions.
2. Evaluate the office's compliance with certain contractual and statutory provisions.

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) noncompliance with a contractual provision. The accompanying Management Advisory Report presents our findings arising from our audit of the Grandview Contract License Office.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

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
Grandview Contract License Office
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. In addition, the license office does not always ensure sales tax transactions are properly entered into the computerized system, resulting in incorrect sales tax collections.

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.

Purchase prices

License office personnel did not retain sufficient documentation to support the purchase price for 2 of 60 transactions (3 percent) reviewed. For these transactions, the purchase prices used were questionably low, but license office staff did not obtain a notarized bill of sale to support the purchase prices. We obtained the estimated fair market values from DOR personnel and determined the reported purchase prices for the transactions were \$5,541 lower than the estimated fair market values, resulting in an apparent \$450 reduction in taxes collected.

When we brought these transactions to the DOR's attention, the DOR sent additional tax due letters to the 2 taxpayers requiring the taxpayers 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. One taxpayer paid the full amount of additional taxes due in July 2016. As of August 2016, no action had been taken by the other taxpayer to pay the additional amount due or to provide a notarized bill of sale.

Data entry error

License office personnel erroneously entered an incorrect purchase price into the computerized system for 1 of 60 (2 percent) transactions reviewed. License office personnel entered a purchase price of \$1,000 instead of the \$1,500 listed on supporting documentation, thereby reducing the purchase price on which taxes were calculated. The transaction resulted in \$42 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 August 2016, no action had been taken by the taxpayer to pay the additional amount due.



Conclusion

To ensure the purchase price is accurate and the proper sales tax amounts are charged to customers, the license office should comply with DOR procedures requiring adequate documentation of purchase prices, and ensure sales tax transactions are properly entered into the computerized system.

Recommendations

The license office ensure compliance with DOR procedures requiring adequate documentation to support the purchase price for vehicle sales and use tax transactions, and verify accurate entry of sales tax transactions in the computerized system before processing taxes due.

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:

Item 1: The auditee acknowledges that a bill of sale had been submitted, however; the required explanation of unusually low sale was not included as according to policy MV V-09. Office management will accentuate the need for office staff to scrutinize in regards to this particular procedure.

Item 2: The Grandview Office acknowledges the error that resulted in a reduction of taxes due to a typographical error in entering the sale price of \$1,000 rather than \$1,500.

The DOR provided the following response:

In addition to our periodic audits of the license offices, the DOR is working on the development of training webinars and possibly reinstating regional trainings to assist offices, subject to appropriations. 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.

2. Prepayment Void Transactions

License office personnel did not obtain customer acknowledgment documentation for 2 of 6 (33 percent) applicable prepayment void transactions that occurred from March 16 to March 18, 2016.

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.

DOR official procedures require customer acknowledgement of a void transaction if a new one is not completed or is for a lesser amount. In addition, obtaining customer acknowledgment helps ensure a transaction was voided for a valid reason.



Recommendation

The license office ensure prepayment void transactions are supported by customer acknowledgement of the void, when applicable.

Auditee's Response

Auditee acknowledges that the signatures were not obtained on both transactions. The first one for a lesser amount for the City of Grandview's vehicle being reduced for the agent fee. Secondly, the other one for an incompleteness of a temporary placard. Management and staff have reviewed and discussed the policy for prepayment voids.

3. Accounting Controls and Procedures

The license office needs to improve controls and procedures over monies collected. For the year ended June 30, 2016, the office collected and remitted to the DOR approximately \$20.1 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. We reviewed receipt transactions processed in the office from March 16 to March 18, 2016, and from May 13 to May 16, 2016. Our review determined the composition of deposits did not agree to the composition of receipts recorded for the May 16, May 17, and May 18, 2016, deposits. We identified check and credit card payments recorded as cash payments, and cash payments recorded as credit card payments. In addition, on March 17, 2016, the license office did not record the method of payment on a manual receipt slip issued for a driving record purchase or on a manual receipt slip issued for fees collected for the reinstatement of driving privileges. The license office issues 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.

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 all manual receipt slips.

Auditee's Response

Auditee recognizes the importance of identifying the correct method of payment. Auditee accepts the auditor's recommendations and will improve controls to make sure method of payment is accurately recorded, reviewed, and reconciled.



4. 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 1 of 25 inventory items reviewed. During our review on May 16, 2016, we found 1 item that was not listed in the inventory records. This item was in a shipment received by the office in April 2016.

The license office increases the risk of undetected theft and/or impropriety when inventory records are not updated accurately and timely. 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

Auditee knows the importance of keeping a daily perpetual inventory account. The June allotment was received the last week of April 2016. Friday, May 13th the allotment was verified against the invoice by license office personnel and put up on to the shelf for distribution. The allotment didn't get recorded into the inventory book until the next business day. The auditee will continue to maintain accurate perpetual inventory records, as required by the DOR.

Department of Revenue

Grandview 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



Department of Revenue
Grandview Contract License Office
Organization and Statistical Information

In November 2013, the DOR solicited bids for the Grandview Contract License Office. The office was awarded to the City of Grandview, effective February 6, 2014.

For the year ended June 30, 2016, the office collected and remitted to the DOR \$20,088,109, and retained processing fees totaling \$385,020. Under the terms of the contract, the office was not required to return a percentage of its processing fees to the state.

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 \$1,770, \$1,687, and \$1,361 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:

Debbie Bowlin, Contract/Office Manager