



**Thomas A. Schweich**  
Missouri State Auditor

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## REVENUE

# Princeton Contract License Office

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November 2011  
Report No. 2011-100



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<http://auditor.mo.gov>



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Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Princeton Contract License Office

Background	The Department of Revenue has appointed 183 contract agents to operate contract license offices. 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. This audit is one of the initial 10 contract license offices audited by the State Auditor.
Prepayment Void Transactions	The Princeton contract license office did not maintain proper documentation of prepayment void transactions. Prepayment void transactions occur when a transaction is entered into the processing system but is voided before payment is made. Department of Revenue official procedures require license offices to document the reason for any void, obtain the customer's signature acknowledging the void, and have a supervisor and/or manager review and approve the void. The Princeton contract license office lacked documentation of customer acknowledgment for the 6 void transaction occurring between April and June 2011, did not document manager approval of these transactions, and did not document the reason for voiding 3 of these transactions.
Contract Compliance	The Princeton contract license office is not complying with the agent contract requirement to update inventory records on a daily basis. Inventory records were incorrect for 5 of the 40 items we reviewed, which increases the risk of theft and/or impropriety.
Accounting Controls and Procedures	The Princeton contract license office needs to improve its accounting controls and procedures. The license office did not always accurately record the method of payment, such as cash or check, and did not reconcile the composition of monies received to deposits, as required by Department of Revenue procedures.

In the areas audited, the overall performance of this entity was **Fair**.\*

American Recovery and Reinvestment Act 2009 (Federal Stimulus)	The Princeton contract license office did not receive any federal stimulus monies during the audited time period.
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\*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

## Princeton Contract License Office

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# THOMAS A. SCHWEICH

## Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor

and

Alana M. Barragán-Scott, Director

Department of Revenue

Jefferson City, Missouri

and

Donna Place Herdrich, Contract Agent

Princeton Contract License Office

Princeton, Missouri

We have audited certain operations maintained and established by the Princeton 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, 2011. The objectives of our audit were to:

1. Evaluate the office's internal controls related to the handling of various fee 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 contact 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 Princeton Contract License Office.

A handwritten signature in black ink that reads "Thomas A. Schweich". The signature is written in a cursive style with a large, prominent initial 'T'.

Thomas A. Schweich  
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Toni Crabtree, CPA
In-Charge Auditor:	Katie Twiehaus
Audit Staff:	Corey McComas, M.Acct., CPA

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**1. Prepayment Void Transactions**

The Princeton license office needs to improve controls over prepayment void 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 entries that contain an incorrectly spelled name, a transfer on death erroneously left off the title, an incorrect address or date of purchase; and when customers lack sufficient funds to pay the transaction.

The license office did not maintain customer acknowledgment documentation for the six void transactions that occurred in April, May, and June 2011, and did not document the reason for voiding three of these transactions. Additionally, the office manager did not document her approval of these void transactions.

Department of Revenue (DOR) official procedures provide that the reason for the void should be documented along with the customer's signature acknowledging the void, and the void transaction be reviewed and approved by a supervisor and/or manager. Obtaining a customer's acknowledgement and documenting the reason for voiding a transaction helps ensure the transaction actually was voided, and a review by office management also helps ensure transactions were properly handled and are valid.

**Recommendation**

The Princeton Contract License Office ensure all prepayment void transactions are supported by customer acknowledgment of the void transaction, along with the reason for the void. In addition, office management should review all prepayment void transactions and document its review.

**Auditee's Response**

*The recommendation has been implemented. My office now has a voided transaction file and all voids are stored in this file in order. Each void is signed by the customer, both on the signature line and at the bottom of the form, and the words voided transaction are written across the paperwork.*

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**2. Contract Compliance**

The Princeton license office does not always accurately update inventory records on a daily basis, as required by its agent contract with the DOR. According to DOR personnel, the Princeton license office typically has approximately 1,500 inventory items on hand on any given day. The inventory items include items such as license plates, tabs, decals, and permits.

The license office did not properly record the inventory for 5 of 40 (13 percent) items reviewed in June 2011. We observed a personalized license plate which was not recorded in the inventory log. According to the office manager, a personalized license plate is not recorded in the inventory log



until the plate is sold. Additionally, a license plate tab was marked as sold in the log, but was still on hand; a truck plate was shown as sold in TRIPS, but not marked as sold in the log; and a passenger license plate had not been recorded in the log as transferred to another license office. In addition, several license plates were sold out of sequence.

The license office increases the risk of undetected theft and/or impropriety when inventory records are not updated accurately and on a timely basis. In addition, the agent contract requires the license office to maintain up-to-date perpetual inventory records.

## Recommendation

The Princeton Contract License Office maintain accurate perpetual inventory records, as required by the agent contract.

## Auditee's Response

*The recommendation has been implemented. My office now records all inventory in the inventory log, including personalized plates as they arrive in the office. The old DOR policy was to record personalized plates as they were sold but that policy has been changed. All inventory is recorded in the inventory log and the log is kept up to date.*

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## 3. Accounting Controls and Procedures

The Princeton license office needs to improve controls and procedures over monies collected. For the year ended June 30, 2011, the office collected and remitted to the DOR approximately \$678,000.

The license office did not always accurately record the method of payment (cash, check, and 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 two of three deposits made from May 17 to May 19, 2011. A review of these deposits identified transactions marked as paid with cash when actually paid for by check, and checks recorded as cash payments.

DOR official procedures for license offices provide that the composition of monies received should be reconciled to the accounting records and to deposits. Discrepancies between accounting records and deposits result in less assurance of proper handling.

## Recommendation

The Princeton Contract 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.

## Auditee's Response

*The recommendation has been implemented. My office is accurately recording transactions as cash, check, credit card or combination of methods of payment. In the past, customers could write one check for both motor vehicle and driver's transaction and I would divide it between the drawers. In order to keep the composition of the drawers correct, customers*



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*are now required to write separate checks for drivers and motor vehicle transactions.*

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# Department of Revenue

## Princeton Contract License Office

### Organization and Statistical Information

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Pursuant to Section 136.030(2), 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 183 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.

Starting in January 2009, the DOR began awarding license offices through a competitive bidding process. Effective August 2009, Section 136.055.2, RSMo, requires contract license offices to be awarded through a competitive bidding process. 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. Contracts for the license offices are typically for one year, with three one-year renewal periods. 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 over 500 different types of license plates which can be classified into 6 major categories: passenger, truck, trailer, motorcycle, bus, and dealer. In addition, the contract license offices issue 5 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 or blindness awareness fund, register with the selective services, add endorsements or restrictions to licenses, and an opportunity to register to vote.

The contract agents do not receive compensation from the DOR, but do 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 July 2009, the bid solicitation for the Princeton Contract License Office was issued. The office was awarded to Donna Place Herdrich, effective



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November 19, 2009. At June 30, 2011, the contract/office manager was Donna Herdrich.

For the year ended June 30, 2011, the office collected and remitted to the DOR \$678,084, and retained processing fees totaling \$24,599. Under the terms of the contract, the office was not required to return a percentage of its processing fees to the state.

American Recovery and  
Reinvestment Act 2009  
(Federal Stimulus)

The Princeton Contract License Office did not receive any federal stimulus monies during the year ended June 30, 2011.