



Thomas A. Schweich
Missouri State Auditor

REVENUE

Raytown Contract License Office

November 2011
Report No. 2011-101



<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Raytown 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 Raytown 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 Raytown contract license office lacked documentation of manager approval for 16 of 29 (55 percent) void transactions occurring over 3 days in July 2011, did not document the reason for voiding 1 of the 16 transactions, and did not maintain documentation of customer acknowledgment for 1 other voided transaction.
Accounting Controls and Procedures	The Raytown 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 **Good**.*

American Recovery and Reinvestment Act 2009 (Federal Stimulus)	The Raytown 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
Raytown Contract License Office
Table of Contents

State Auditor's Report 2

Management Advisory
Report - State Auditor's
Findings

- 1. Prepayment Void Transactions4
- 2. Accounting Controls and Procedures4

Organization and Statistical
Information 6



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
Sharp Services, Contract Agent
Raytown Contract License Office
Raytown, Missouri

We have audited certain operations maintained and established by the Raytown 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 contract office.

For the areas audited, we identified (1) deficiencies in internal controls and (2) no significant noncompliance with contractual and statutory provisions.

The accompanying Management Advisory Report presents our findings arising from our audit of the Raytown 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, sweeping 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 Kelli Oldham

Department of Revenue
Raytown Contract License Office
Management Advisory Report - State Auditor's Findings

1. Prepayment Void Transactions

The Raytown 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 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 manager did not document her approval for 16 of 29 (55 percent) void transactions that occurred from July 18 to July 20, 2011. According to the office manager, her policy is to sign each individual void transaction and also sign the void report. Additionally, the license office did not document the reason for voiding the transaction for 1 of the 16 transactions, and did not maintain customer acknowledgment documentation for 1 other void transaction.

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 the transaction help ensure the transaction actually was voided, and a review by office management also helps ensure transactions were properly handled and are valid.

Recommendation

The Raytown 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, the license office should ensure documentation of the approval of all prepayment void transactions is maintained.

Auditee's Response

I do not agree with the finding, but I will make sure that I follow the correct procedure and will make the adjustments to the way we handle this procedure. I have sent a memo out to my clerks explaining that the signature of the applicant has to be on the application and the reason needs to be noted. Every time a void is made one of the management team will verify the application.

2. Accounting Controls and Procedures

The Raytown 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 Department of Revenue (DOR) almost \$16 million.

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



Department of Revenue
Raytown Contract License Office
Management Advisory Report - State Auditor's Finding

composition of deposits did not agree to the composition of receipts recorded for the three deposits made from July 18 to July 20, 2011. A review of these deposits identified transactions marked as paid with cash when actually paid for by check and/or credit card, checks recorded as cash and credit card payments, and credit card payments 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 Raytown Contract License Office ensure the correct method of payment is recorded in the accounting records and the composition of monies received be reconciled to the accounting records and to deposits.

Auditee's Response

I do not agree with the finding, but I will send a letter out to my clerks also on this issue explaining the seriousness of this and to make sure at all cost please validate the checks for checks, cash for cash, and credit card for credit card. We will ask for cash only on the driver records and failure to appear in court for traffic (FACT) violations, if necessary.

Department of Revenue

Raytown Contract License Office

Organization and Statistical Information

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 January 2009, the bid solicitation for Raytown Contract License Office was issued. The office was awarded to Sharp Services, effective October 22,



Department of Revenue
Raytown Motor Vehicle and Driver License Office
Organization and Statistical Information

2009. At June 30, 2011, the contract and office managers were Ben Sharp and Doris Young, respectively.

For the year ended June 30, 2011, the office collected and remitted to the DOR \$15,959,421 and retained processing fees totaling \$567,159. Additionally, as part of the bidding process, the office agreed to return 10 percent of its processing fees to the state during the first year of the contract and 6 percent during the renewal periods. For the year ended June 30, 2011, the office returned processing fees, totaling \$41,288 to the state.

**American Recovery and
Reinvestment Act 2009
(Federal Stimulus)**

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