



Thomas A. Schweich
Missouri State Auditor

REVENUE

Imperial Contract License Office

November 2011
Report No. 2011-97



<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Imperial 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.
Accounting Controls and Procedures	The Imperial 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 Imperial contract license office did not receive any federal stimulus monies during the audited time period.
--	--

*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.

All reports are available on our website: <http://auditor.mo.gov>

Department of Revenue
Imperial Contract License Office
Table of Contents

State Auditor's Report 2

Management Advisory
Report - State Auditor's
Finding 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

Paul R. Schmidt, Sr., Contract Agent
Imperial Contract License Office
Imperial, Missouri

We have audited certain operations maintained and established by the Imperial 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) a deficiency in internal controls and (2) no significant noncompliance with contractual and statutory provisions.

The accompanying Management Advisory Report presents our finding arising from our audit of the Imperial Contract License Office.



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
Imperial Contract License Office
Management Advisory Report - State Auditor's Finding

**Accounting Controls
and Procedures**

The Imperial 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) approximately \$7.8 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 composition of deposits did not agree to the composition of receipts recorded for the three deposits made from August 12 to August 15, 2011. A review of these deposits identified transactions marked as paid with cash when actually paid for by check and/or credit card, 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 Imperial 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

Frequently as my clerks are working on the counter the type of payment will be changed by the customer. They may present a credit card which is not able to be processed or after reflecting on the fee of \$1 or 2.75 percent decide to use another payment. I believe that the clerks on my counter are moving one step too far before actually having the payment in hand. If this occurs the clerk would need to process a manual void in order to complete the transaction with the proper payment, this would involve voiding inventory that was to be issued, stopping the transaction on the computer system and adjusting the accounting report manually to correctly reflect the proper form of payment collecting. I have had clerks that have asked me about this and frankly have made this error while working the counter myself. My response to the clerks and my own action has been to allow the transaction to stand and as long as the overall drawer was in balance take no further action. I was not aware and was not made aware by the Department of Revenue (DOR) that it was critical that the accounting report be reconciled regarding the number of checks/credit cards or the amount of checks/cash/credit cards.

After speaking with my clerks regarding this matter and my wife, who often handles the deposits and preparation of the shipmen/accounting report, discrepancies were found regarding the identification of transactions as check/cash/credit card by our field representative from DOR. A recommendation was made by her to note the audit copy kept in the office that the correct form of payment was not recorded and what form of payment was received. After reviewing the audit copies and accounting reports it does not appear that that was adequately communicated with my



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

staff, nor was it followed up on after the recommendation was made by myself.

In conclusion, we had only been using the check/cash/credit card designation for the purposes of reconciling a possible incorrect or missing payment and did not understand the gravity of its accuracy for final accounting by the State. After reading the State Auditor's finding I have sent a memo to each of the clerks in my office and are making certain that each clerk pays attention to this detail on each transaction, allowing each transaction sufficient time to be processed reflecting the correct payment. I will also inquire with our field representative as to how the DOR wishes us to inform them of corrections on her next visit which should be the last week of October.

Department of Revenue

Imperial 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 March 2009, the bid solicitation for the Imperial Contract License Office was issued. The office was awarded to Paul R. Schmidt, Sr., effective



Department of Revenue
Imperial Contract License Office
Organization and Statistical Information

September 3, 2009. At June 30, 2011, the contract/office manager for the license office was Paul R. Schmidt, Sr.

For the year ended June 30, 2011, the office collected and remitted to the DOR \$7,780,550, and retained processing fees totaling \$289,318. Additionally, as part of the bidding process, the office agreed to return 5 percent of its processing fees to the state. For the year ended June 30, 2011, the office returned processing fees, totaling \$14,466, to the state.

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

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