



Thomas A. Schweich
Missouri State Auditor

REVENUE

Paris Contract License Office

November 2011
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<http://auditor.mo.gov>



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Paris 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 Paris 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 Paris contract license office lacked any documentation for 5 out of 10 of the void transactions we reviewed and lacked documentation of customer acknowledgment for 1 out of 5 other transactions.
Segregation of Duties	The Paris contract license office does not adequately segregate duties, and there is no documented oversight by the contract agent. The office has 1 employee who is responsible for multiple duties, including receiving monies, depositing receipts, and reconciling the bank account to the accounting records. There is no evidence that the contract agent reviews this work, which increases the risk of loss or misuse.

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

American Recovery and Reinvestment Act 2009 (Federal Stimulus)	The Paris 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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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

Christy Barton, Contract Agent
Paris Contract License Office
Paris, Missouri

We have audited certain operations maintained and established by the Paris 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 Paris 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
Paris Contract License Office
Management Advisory Report - State Auditor's Findings

1. Prepayment Void Transactions

The Paris 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 any documentation for 5 of 10 (50 percent) void transactions that occurred during the months of April, May, and June 2011. Additionally, the office did not maintain customer acknowledgment documentation for 1 of 5 other 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 appropriate documentation including a customer's acknowledgement 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 Paris 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

I have reviewed your finding and agree with your recommendation. Per your recommendation, employees will ensure that all prepayment void transactions are supported by a customer acknowledgement of the voided transactions with their signature or initials, and a reason will be documented on the voided transaction. To ensure proper oversight, the contracted agent will review and initial daily void reports in an effort to strengthen internal controls and ensure employee compliance.

2. Segregation of Duties

The Paris license office does not have adequate segregation of duties and there is no documented oversight by the contract agent.

The office has one employee who is responsible for the operation and management of the office, including receiving monies, recording receipts and transactions in TRIPS, depositing receipts, reconciling the bank account to the accounting records, and maintaining the inventory, such as license plates and tabs. Although DOR personnel periodically review and evaluate the contract office procedures and records, there is no evidence the contract



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Management Advisory Report - State Auditor's Finding

agent provides adequate supervision or review of the work performed by the employee.

To reduce the risk of loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties is not possible, the contract agent should review the work performed and investigate any unusual transactions.

Recommendation

The Paris Contract License Office ensure timely supervision or independent review of the work performed by the office employee and investigate unusual items and variances.

Auditee's Response

I have reviewed your finding and agree with your recommendation. Per your recommendation to segregate duties, the contracted agent will reconcile bank statements monthly, review daily transactions weekly to safeguard against possible loss or misuse of funds, and will oversee daily inventory and general operations. In order to document the agent's oversight, I will initial all appropriate documents as needed.

Department of Revenue

Paris 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 six 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 August 2009, the bid solicitation for the Paris Contract License Office was issued. The office was awarded to Christy Barton, effective



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Organization and Statistical Information

November 19, 2009. At June 30, 2011, the contract and office managers were Christy Barton and Toni Barton, respectively.

For the year ended June 30, 2011, the office collected and remitted to the DOR \$755,889, and retained processing fees totaling \$33,197. 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 Paris Contract License Office did not receive any federal stimulus monies during the year ended June 30, 2011.