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Missouri State Auditor

REVENUE

Bridgeton Contract License Office

October 2012
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<http://auditor.mo.gov>



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Bridgeton 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.
Accounting Controls and Procedures	The Bridgeton contract 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. Department of Revenue official procedures provide that the composition of monies received should be reconciled to the accounting records and deposits.
Federal Indictment	A former employee of the Bridgeton contract license office and three associates were indicted by a federal grand jury for providing driver licenses and non-driver identification cards to illegal aliens. Once license office management became aware of the fraudulent activities, it contacted the Department of Revenue, which began an investigation and contacted federal law enforcement officials. License office management has since hired experienced staff and conducted additional employee training, and is providing additional oversight and review.

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

American Recovery and Reinvestment Act (Federal Stimulus)	The Bridgeton 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

Bridgeton 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

MT Services, Inc., Contract Agent

Bridgeton Contract License Office

Bridgeton, Missouri

We have audited certain operations maintained and established by the Bridgeton 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, 2012. 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.
3. Evaluate actions taken in response to a federal indictment alleging a conspiracy to provide fraudulent identity documents to illegal aliens.

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 (2) no significant noncompliance with contractual and statutory provisions and (3) no need for further action by the office related to the federal indictment other than to continue working with law enforcement officials.

The accompanying Management Advisory Report presents our findings arising from our audit of the Bridgeton 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:	Robyn Vogt, M.Acct., CPA
Audit Staff:	Corey McComas, M.Acct., CPA Aaron Allen

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Bridgeton Contract License Office
Management Advisory Report - State Auditor's Findings

**1. Accounting
Controls and
Procedures**

The Bridgeton license office needs to improve controls and procedures over monies collected. For the year ended June 30, 2012, the office collected and remitted to the Department of Revenue (DOR) approximately \$5.3 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 March 13 to March 15, 2012, and the May 14, 2012 deposit. A review of these deposits identified transactions marked as paid with cash when actually paid for by check, and credit card payments recorded as checks. In addition, the method of payment is not always recorded on the Drivers Sale of Information Receipt issued for driving records.

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 Bridgeton 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 office staff follows strict guidelines as to entering end of the day amounts and totals. The Bridgeton Office has reiterated the correct procedures and included reference to your findings in a handout to all staff on noting any discrepancies that may occur due to customers changing their mind or inadvertently entering amounts into the incorrect column. We have stressed the importance of noting at the bottom of the clerk's Cashier Reports any changes or reasons why the categories are not in compliance with the system totals. These actions should prevent any further errors on reporting end of day work totals.

2. Federal Indictment

A federal grand jury in the United States District Court for the Eastern District of Missouri indicted a former employee of the Bridgeton Contract License Office in February 2012. The former employee and three associates are charged with providing driver licenses and non-driver identification cards to illegal aliens.

The indictment alleges that between March 2010 and December 2011, individuals who were illegally in the United States were provided with counterfeit and stolen birth certificates and social security cards. The individuals presented the fraudulent documents to the former employee at the license office who then issued State of Missouri driver licenses and non-driver identification documents to the individuals. Those who received



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Management Advisory Report - State Auditor's Finding

driver licenses were not required to prove their ability to safely operate motor vehicles.

Once becoming aware of the fraudulent activities, license office management contacted the Department of Revenue (DOR). The DOR began an investigation and contacted federal law enforcement officials. The former employee and the associates were indicted on multiple charges including conspiracy, production of false identification documents and possession of 15 or more access devices. License office management has since hired experienced staff and provided additional training to employees. In addition, the Contract Manager is also working in the office full time to provide an additional level of oversight and review.

Recommendation

The Bridgeton Contract License Office continue to work with law enforcement officials as needed during their investigation.

Auditee's Response

The Bridgeton License Office has always and will continue to work diligently with law enforcement when the need arises.

Department of Revenue

Bridgeton 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.

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 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 a wide-range of standard, personalized, and specialty license plates which can be classified into five major categories: passenger, truck, trailer, motorcycle, and bus. In addition, the contract license offices 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). The licensing process also includes allowing customers to contribute to the organ donor program or blindness awareness fund, register with the selective services, and add endorsements or restrictions to licenses; and provides 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 April 2009, the bid solicitation for the Bridgeton Contract License Office was issued. The office was awarded to MT Services, Inc., effective



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Organization and Statistical Information

December 24, 2009. At June 30, 2012, the contract and office managers were Mark Miles and Timothy Klott, respectively.

For the year ended June 30, 2012, the office collected and remitted to the DOR \$5,278,173, and retained processing fees totaling \$285,179. 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, 2012, the office returned processing fees, totaling \$14,339, to the state.

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

The Bridgeton Contract License Office did not receive any federal stimulus monies during the year ended June 30, 2012.