



Thomas A. Schweich
Missouri State Auditor

REVENUE

Chesterfield Contract License Office

November 2012
Report No. 2012-135



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Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Chesterfield 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 Chesterfield 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.
Contract Compliance	The Chesterfield contract license office does not always accurately update inventory on a daily basis, as required by its agent contract with the Department of Revenue, and, during a previous office semi-annual inventory, four items could not be located.

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

American Recovery and Reinvestment Act (Federal Stimulus)	The Chesterfield 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

Chesterfield 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

Ryker Enterprises, Inc., Contract Agent

Chesterfield Contract License Office

Chesterfield, Missouri

We have audited certain operations maintained and established by the Chesterfield 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.

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) noncompliance with a contractual provision.

The accompanying Management Advisory Report presents our findings arising from our audit of the Chesterfield 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
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	Aaron Allen

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

**1. Accounting
Controls and
Procedures**

The Chesterfield 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 \$8.3 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 and May 15, 2012 deposits. A review of these deposits identified transactions marked as paid with cash when actually paid for by check and/or credit card, and credit card payments recorded as cash and/or check. 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 Chesterfield 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 contract manager agrees with the recommendation of the auditors. Implementation will be effective immediately.

The contract manager and office manager will be sure to reiterate the importance of strictly endorsing checks and to be sure to accurately record the method of payment. Often times the customer will change their mind as to what type of payment they would like to use.

**2. Contract
Compliance**

The Chesterfield license office does not always accurately update inventory records on a daily basis, as required by its agent contract with the DOR. According to office management, the office tries to maintain a 30-day stock of inventory items such as license plates, tabs, decals, and permits.

We reviewed selected inventory records for the year ended June 30, 2012. The license office had not properly updated the inventory records for 3 of 25 items reviewed that were shown as sold in the Titling and Registration Intranet Processing System and/or transferred to another license office. Also, during the previous office semi-annual inventory, four items could not be located. As a result, the DOR required the office to reimburse the DOR \$127 for the missing items.



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Management Advisory Report - State Auditor's Finding

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

Auditee's Response

The contract manager agrees with the recommendation of the auditors. Implementation will be effective immediately.

Regarding the previous office semi-annual inventory, a tab was located and credited to the office.

To continue improving inventory control, the agent will have clerks utilize form 1246 as a "plate sheet" that they will record each transaction as they occur. It includes customer name, shipment number, clerk name, date, items sold, amount of transaction and form of payment. Rarely used inventory is to be held by the manager and must be signed out and recorded on plate sheet as well. The manager is to check the inventory sold in the Titling and Registration Intranet Processing System three times per day to check for a skip in sequential order, to be reviewed at 11:00 a.m., 3:00 p.m. and close of business. The manager will review surveillance to assist in locating a missing item. Clerks will be instructed to notify the manager if a customer requests that an item be taken out of order. All inventory will be logged at open and close of business to determine if an item not commonly sold was skipped. Clerks are to immediately mark an item as sold if processed in miscellaneous accounting.

We will post inventory daily, fax all inventory corrections daily, submit form 984 daily to the DOR auditor, verify inventory as it arrives, work monthly inventory reports immediately upon receipt, and keep inventory file with copies of everything sent to the DOR auditor.

Department of Revenue

Chesterfield 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 March 2009, the bid solicitation for the Chesterfield Contract License Office was issued. The office was awarded to Ryker Enterprises, Inc.,



Department of Revenue
Chesterfield Contract License Office
Organization and Statistical Information

effective December 24, 2009. At June 30, 2012, the contract and office managers were Danah Lewis and Karen Ryan, respectively.

For the year ended June 30, 2012, the office collected and remitted to the DOR \$8,254,624, and retained processing fees totaling \$320,570. Additionally, as part of the bidding process, the office agreed to return 3 percent of its processing fees to the state. For the year ended June 30, 2012, the office returned processing fees, totaling \$9,705, to the state.

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

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