



Thomas A. Schweich
Missouri State Auditor

REVENUE

Columbia Contract License Office

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



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Columbia 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 Columbia 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. For the 29 void transactions that occurred over a 3-day period, the Columbia contract license office lacked documentation of customer acknowledgment for 83 percent and lacked documentation of manager approval for 21 percent.
Contract Compliance	The agent contract provides that if there is a shortage in the daily balance, the contract agent must make up the difference, but, if there is an overage in the daily balance, the amount of the overage must be deposited in the Department of Revenue bank account. Instead of depositing overages as required, the Columbia contract license office retained overages to cover future shortages.

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

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

Columbia 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

Columbia Licensing Services, LLC, Contract Agent
Columbia Contract License Office
Columbia, Missouri

We have audited certain operations maintained and established by the Columbia 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) noncompliance with a contractual provision.

The accompanying Management Advisory Report presents our findings arising from our audit of the Columbia 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
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	Kelli Oldham

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

1. Prepayment Void Transactions

The Columbia 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 did not maintain customer acknowledgment documentation for 24 of 29 (83 percent) void transactions that occurred from June 6 to June 8, 2011. Additionally, the office manager did not document approval for 6 (21 percent) of the 29 transactions. According to the office manager, she performs a daily review of prepayment void transactions, but does not always document her review.

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 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 Columbia 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

It has always been our practice for clerks to explain to customers why a transaction is being voided. Additionally, it has always been our practice for an office manager to review all prepayment void transactions to ensure that they were handled appropriately. In order to document these procedures and to implement your recommendation, we are now requiring the signature of any customer or representative for whom we need to issue a prepayment void on their transaction. We are also requiring that the manager reviewing the void transaction initial their review. Many prepayment void transactions are the result of a customer not realizing that payment would be required and not having any means to pay for the service. For example, many customers are unaware that there is a fee associated with issuing a new title or with transferring license plates from one vehicle to another. As an additional step and in order to minimize prepayment void transactions, we are requiring our clerks to politely inquire of all customers what means of payment they wish to use prior to processing their



transaction. In that manner, it is hoped that we can both improve customer service and minimize void transactions. We recognize that some prepayment voids are unavoidable, however, we will endeavor to do what we can in order to keep these void transactions to as small a number as possible.

2. Contract Compliance

The Columbia license office does not deposit overages of revenue collected in the DOR bank account, as required by its agent contract with the DOR.

The office policy, when the daily revenue accounting reports indicate total collections are less than the actual monies collected (overage), is to place the excess money in a specific box in the office. Then, if an accounting report indicates total collections are greater than the actual monies collected (shortage), monies from the box are used to cover the difference.

The agent contract provides that if the daily balance reflects a shortage, the agent should pay the difference prior to the deposit. However, if the daily balance reflects an overage, the amount of the overage should be deposited in the DOR bank account.

Recommendation

The Columbia Contract License Office comply with contractual provisions requiring any overages of daily funds to be deposited in the DOR bank account.

Auditee's Response

We take very seriously our responsibility for accurate accounting-for the customer, for the state, and for our own office. There are times when our receipts may vary slightly from what they should be and that variance is typically very minor-frequently just a few cents. We have always understood that any significant overage would belong to the state and that all shortages, no matter how small or large, would always be ours. We have never had any significant overages, although admittedly we have had overages of less than a dollar on numerous occasions. In terms of shortages, last calendar year we absorbed \$289.50, and this calendar year to date we have absorbed \$287.51 in shortages. In order to completely account for all funds, no matter how small, this office will ensure that all overages, regardless of amount, will be deposited into the state account. We will continue to absorb all shortages and report accordingly.

Department of Revenue

Columbia 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 the Columbia Contract License Office was issued. The office was awarded to the Columbia Licensing



Department of Revenue
Columbia Contract License Office
Organization and Statistical Information

Services, LLC, effective April 24, 2009. At June 30, 2011, the contract and office managers were Patricia Wilson and Diana Thomas, respectively.

For the year ended June 30, 2011, the office collected and remitted to the DOR \$18,660,289, and retained processing fees totaling \$703,218. Additionally, as part of the bidding process, the office agreed to return one percent of its processing fees to the state. For the year ended June 30, 2011, the office returned processing fees, totaling \$7,032, to the state.

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

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