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NEWS RELEASE

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FOR RELEASE _____ September 29, 2010 _____

Auditor of State David A. Vaudt today released a report on a special investigation of certain driver's license collections at the Sioux County Treasurer's Office for the period July 1, 2009 through May 31, 2010. The special investigation was requested by the Department of Transportation (DOT) after a preliminary investigation by DOT officials identified driver's license fees which had not been properly deposited.

Vaudt reported the special investigation identified \$4,252.00 of undeposited collections. The collections were comprised of 5 daily deposits of driver's license collections, ranging in amount from \$546.00 to \$1,139.00, received between September 22, 2009 and February 11, 2010.

The Sioux County Treasurer's Office is 1 of 81 County Treasurer's offices providing driver's license issuance services. The driver's license function is a separate division within the Sioux County Treasurer's Office and only handles collections related to driver's license services. There are 3 employees within the Sioux County Treasurer's Office who perform these duties and fees paid by customers obtaining driver's license services can be received by any of the 3 employees. The undeposited fees identified were recorded in the driver's license system and deposit slips were prepared; however, the 5 daily deposits identified were never deposited to the bank.

The \$4,252.00 identified was composed of \$2,015.00 of cash and \$2,237.00 of checks. Based on confirmations sent to customers paying by check, the checks included in the 5 deposits identified had not yet cleared the customers' bank accounts and were still outstanding at the time of confirmation. As a result, we are unable to determine if the checks were inadvertently misplaced or purposely destroyed. In addition, we are unable to determine whether the cash collections included in the 5 deposits were lost or misappropriated. Because the payments were not deposited by the Sioux County Treasurer's Office, there is a \$4,252.00 loss to the State. According to a representative of DOT, replacement payments will not be requested from the customers.

The report also includes recommendations to strengthen the controls at both the Sioux County Treasurer's Office and DOT, such as reconciling the daily activity reports to the deposit slips prepared, ensuring written accounting policies and procedures are followed by all driver's license issuance locations and monitoring variances between the driver's license records and the bank deposits for each driver's license issuance location.

Copies of the report have been filed with the Division of Criminal Investigation, the Attorney General's Office and the Sioux County Attorney's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1060-6450-BE00.pdf>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
DRIVER'S LICENSE FUNCTION WITHIN THE
SIOUX COUNTY TREASURER'S OFFICE**

**FOR THE PERIOD
JULY 1, 2009 THROUGH MAY 31, 2010**

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Auditor of State's Report

To the Director of the Iowa Department of Transportation
and the Sioux County Treasurer:

As a result of alleged improprieties regarding certain collections and at the request of officials of the Department of Transportation (DOT), we conducted a special investigation of certain driver's license collections received by the Sioux County Treasurer's Office. We have applied certain tests and procedures to selected financial transactions of the driver's license function for the period July 1, 2009 through May 31, 2010. Based on discussions with personnel from the Sioux County Treasurer's Office, DOT and the Treasurer of State (TOS) and a review of relevant information, we performed the following procedures for the period specified:

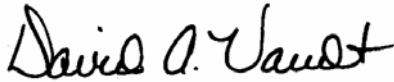
- (1) Evaluated the internal controls of the driver's license function within the Sioux County Treasurer's Office, DOT and TOS to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Obtained and reviewed bank statements and general ledgers to determine if all deposits posted to the driver's license system were properly deposited to the bank.
- (3) Compared carbon copies of deposit slips to the general ledger, daily activity reports and bank statements to determine if they agreed.
- (4) Contacted customers who paid for driver's licenses by check to determine the subsequent disposition of those payments for the daily collections which were not deposited.
- (5) Examined the chronological sequence of deposit slips prepared to determine if all business days could be accounted for.

These procedures identified \$4,252.00 of receipts, comprised of \$2,015.00 in cash collections and \$2,237.00 in check collections, which were not properly deposited. Based on confirmations received from customers paying by check, the check payments had not yet cleared the customers' bank accounts and were still outstanding at the time of confirmation. As a result, we are unable to determine if the checks were inadvertently misplaced or purposely destroyed. In addition, we are unable to determine whether the cash collections were misplaced, accidentally disposed of or misappropriated. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary of this report.

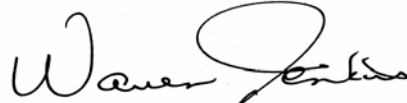
The procedures described above do not constitute an audit of financial statements conducted in accordance with U. S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the Sioux County Treasurer's Office, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Division of Criminal Investigation, the Sioux County Attorney's Office and the Attorney General's Office.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Department of Transportation, the Treasurer of State and the Sioux County Treasurer's Office during the course of our investigation.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 18, 2010

Sioux County Treasurer's Office
Investigative Summary

Background Information

There are currently 81 County Treasurer's offices and 19 Department of Transportation (DOT) driver's license stations issuing driver's licenses and non-operator's identification cards in the State of Iowa. These 100 locations are responsible for administering driving tests, issuing driver's licenses and non-operator's identification cards and collecting fees for driver's license services.

Individuals taking a driving test or obtaining a driver's license may pay their fee with cash or check. Personnel within the County Treasurer's office or at the DOT driver's license station record each collection in the Archon Registration and Titling System (ARTS). ARTS is an electronic applications system allowing the staff to enter the customers' personal information and process payments for tests and driver's licenses issued. ARTS automatically identifies the fee amount to be collected based on the type of service provided and the employee processing the transaction using the unique employee log-in. However, depending on the type of customer and service provided, employees are able to adjust the fee to be collected.

At the end of each business day, an employee within the Sioux County Treasurer's Office or the DOT driver's license station closes the cash drawer(s) by verifying the amount of cash and checks collected, as well as total collections, agrees with the balance recorded in ARTS. If any of these amounts do not agree, the employee should enter an adjustment to ARTS to ensure the system reflects the actual amount collected. However, this procedure is not always followed. If the employee does not enter an adjustment to ARTS and closes the daily activity, the variance becomes a reconciling item on the bank reconciliation at the end of the month.

After the drawer is closed, the cash collected above the established drawer amount is deposited to the local bank and the carbon copy of the deposit slip is kept, along with a daily activity report generated from ARTS. The approved drawer amount for the driver's license function within the Sioux County Treasurer's Office is \$100.00.

The Sioux County Treasurer's Office provides driver's license services from the following locations:

- Sheldon – Monday,
- Sioux Center – Tuesday, Wednesday and Thursday and
- Orange City – Friday.

There are 3 full-time employees within the Sioux County Treasurer's Office responsible for providing driver's license services. Of the 3 employees, the Department Head has supervisory responsibilities. These 3 employees only handle driver's license collections and are not responsible for any motor vehicle registration or property tax collections. Collections for driver's license services are deposited to a local bank in Sioux Center for collections received Monday through Thursday and to a local bank in Orange City for collections received Friday. There is not a primary employee responsible for taking the deposits to the bank. The duty is rotated based on employee availability.

A DOT employee is responsible for preparing a spreadsheet summarizing the driver's license collections at all 100 driver's license stations and for preparing the transfer for each of the 81 County Treasurer's offices from the accounts at each of the local banks to the main bank account used by the State. The collections are recorded to a general ledger system, by each local bank account, which are then reconciled to the local bank statements by an employee within the Treasurer of State (TOS) at the end of each month. If any adjustments were not properly recorded

by County Treasurer's office or DOT personnel, the TOS employee identified variances between the spreadsheet from DOT and the local bank statements. These reconciling items are aggregated for all driver's license locations and, if the aggregate total is immaterial, a correction is recorded to the general ledger to either increase or decrease the general ledger balance to the bank balance.

Effective July 1, 2010, DOT and TOS have changed their procedures regarding adjustments. The TOS employee now generates a report detailing the variances identified by location, which is provided to the DOT employee for further review and follow-up. The determination of which variances to pursue and the amount of any adjustments made are at the discretion of DOT.

In April 2010, the TOS employee responsible for preparing the monthly bank reconciliations contacted the DOT employee responsible for transferring the collections regarding 5 days for which the Sioux County Treasurer's Office recorded collections but a deposit was not reflected on the bank statements. The DOT employee subsequently contacted the Driver's License Department Head of the Sioux County Treasurer's Office to resolve the issue. As a result, it was determined 1 of the 5 deposits had been placed in a drawer and overlooked. This deposit was recorded as \$1,312.00 on ARTS and was subsequently deposited to the bank. However, the amount deposited only totaled \$1,292.00. According to a representative of TOS, the \$20.00 variance is believed to be a counting error made by personnel within the Sioux County Treasurer's Office and was adjusted on ARTS. However, a resolution could not be found for the remaining 4 deposits.

Because 4 of the 5 deposits could not be located, DOT requested the Office of Auditor of State perform an investigation of the discrepancies identified. As a result of that request, we performed the procedures detailed in the Auditor of State's Report for the period July 1, 2009 through May 31, 2010.

Detailed Findings

As a result of these procedures, \$4,252.00 of undeposited driver's license collections was identified for the period July 1, 2009 through May 31, 2010. A detailed explanation of our findings follows.

Undeposited Collections – As previously stated, all driver's license receipts collected in the Sioux County Treasurer's Office are to be deposited to a local bank by a driver's license employee. All 3 driver's license employees have access to the collections, either through direct collection of the cash or check or by preparing the deposit and taking it to the bank.

According to a representative of the Sioux County Treasurer's Office, the following individuals prepared deposits and took deposits to the bank during the period July 1, 2009 to May 31, 2010:

- Jill Lode,
- Wendi Kats and
- Cheryl Sandbulte.

As previously stated, employees from TOS and DOT determined the deposits for collections received on September 22, October 14, October 29 and December 16 had not been properly deposited. An additional deposit slip dated December 15, 2009 for \$1,312.00 was also initially identified as missing by the TOS and DOT employees; however, the deposit was subsequently located on the April 2010 local bank statement. In addition, as a result of the procedures we performed, we determined collections received on February 11, 2010 had also not been properly deposited.

Table 1 summarizes the collections recorded to ARTS for the 5 days which were not properly deposited to the bank, including the receipt date, cash and check amounts shown on the deposit slip and the total deposit amount.

Receipt Date	Cash Amount	Check Amount	Deposit Amount
09/22/09	\$ 490.00	649.00	1,139.00
10/14/09	230.00	316.00	546.00
10/29/09	299.00	417.00	716.00
12/16/09	650.00	463.00	1,113.00
02/11/10	346.00	392.00	738.00
Total	\$ 2,015.00	2,237.00	4,252.00

We sent 127 confirmations to customers who paid by check for the 6 days for which missing deposits had initially been identified, including 28 confirmations for the deposit which was subsequently located. Of the 127 confirmations sent, 98 were returned, including:

- 72 confirmations which indicated the checks remitted had not yet cleared the individual’s checking accounts,
- 21 confirmations related to the deposit subsequently located which indicated the checks remitted had cleared the individual’s checking accounts,
- 2 confirmations related to the deposit subsequently located which indicated the checks remitted had not yet cleared the individual’s checking accounts; however, according to a representative of the local bank used by the Sioux County Treasurer’s Office, the respective checks were both included in the deposit identified and
- 3 confirmations which indicated the individuals were unable to determine the current status of the checks remitted.

In addition, we accounted for the chronological sequence of all deposit slips prepared by the Sioux County Treasurer’s Office employees within the driver’s license function for the period July 1, 2009 through May 31, 2010. According to the Driver’s License Department Head of the Sioux County Treasurer’s Office, there should be a deposit slip prepared at the end of each business day. During our testing, we did not identify any days for which a deposit slip had not been prepared.

As previously stated, we compared all deposits recorded to the general ledger for the period July 1, 2009 through May 31, 2010 to the deposits reflected on the local bank statements. Except for the February 11, 2010 deposit we identified, it appears the TOS employee responsible for reconciling the bank statements had properly identified all missing deposits and other reconciling items. In addition, all reconciling items had been provided to DOT and adjustments had been made to the general ledger to ensure the accounting records reflected the amounts which had been deposited to the bank.

For the 5 deposits identified, the money received could have been mishandled as follows:

- Scenario A – The daily deposit, including deposit slip, cash and checks, prepared by the Sioux County Treasurer’s Office employee was misplaced and is still located in the office used for driver’s license services.
- Scenario B – The daily deposit was accidentally disposed of, lost in transit to the bank or destroyed.
- Scenario C – A driver’s license employee was supposed to take the daily deposit to the bank. However, the employee kept the cash received and disposed of the checks.

As previously stated, \$4,252.00 of undeposited collections were identified, which were comprised of \$2,015.00 of cash collections and \$2,237.00 of check collections. Because 72 of the confirmations received from customers paying by check on the 5 daily deposits identified indicated the checks had not yet cleared the customer's bank accounts, it does not appear the checks received were improperly deposited. However, we are unable to determine the subsequent disposition of the \$2,015.00 of cash collections. In addition, because the payments received were not deposited by the Sioux County Treasurer's Office, there is a \$4,252.00 loss to the State. According to a representative of DOT, replacement payments will not be requested from the customers.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the Sioux County Treasurer's Office for driver's license services, the Department of Transportation and the Treasurer of State to perform bank reconciliation functions, process receipts and transfer funds from the local bank accounts used by the County Treasurers to the bank account used by the State. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen controls within the Sioux County Treasurer's Office, the Department of Transportation and the Treasurer of State.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent one person from handling duties which are incompatible. A single driver's license employee in the Sioux County Treasurer's Office may perform the daily closing procedures, including closing the cash drawer, preparing the deposit and taking the deposit to the bank. There is no independent review of the deposit slip prepared.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, daily closing procedures should be reviewed and segregated among available employees. In addition, an individual independent of the daily closing procedures should review the deposit slip prepared.

- B. Reconciliation of Daily Activity – A reconciliation is not performed between the daily activity report and the deposit slip prior to the deposit being taken to the local bank.

Recommendation – A reconciliation should be performed between the daily activity report and the deposit slip prepared. The reconciliation should compare the amount collected in cash and check, as well as the total amount collected. In addition, the reconciliation should be prepared by an individual independent of the daily closing procedures.

- C. Written Policies and Procedures – According to County personnel we spoke with, there are no standard written policies and procedures for the County Treasurer's offices or the DOT driver's license stations regarding accounting operations, including deposit preparation, reconciliation procedures and maintenance of supporting documentation. However, DOT personnel provided some documentation which addressed these areas.

Recommendation – DOT officials should clearly document and ensure County and DOT personnel understand the written policies and procedures regarding accounting operations at the County Treasurer's offices and the DOT driver's license stations including, but not limited to, the following:

1. Segregation of duties within the daily closing procedures, such as having an independent individual perform each aspect of the daily closing procedures or having an independent individual review the deposit slip prepared and compare it to the daily activity report and the drawer amount noting any variances and the corresponding reason(s). Evidence of who performs the closing procedures and who performs the review should be documented using the initials or signatures of the appropriate individuals.
 2. Reconciliation of the amounts recorded in ARTS on the daily activity report and on the deposit slip. If variances are identified, an explanation should be documented. In addition, an independent individual should review and initial the reconciliations prepared.
 3. Frequency of deposit.
 4. Supporting documentation to be maintained by the County Treasurer's offices and the DOT driver's license stations, including retention period.
- D. Monitoring Adjustments – Adjustments made by the individual driver's license locations, such as adjustments made at the end of the business day or adjustments to the rate charged on an individual transaction, are not reviewed by DOT officials. In addition, adjustments made as a result of variances identified by TOS during the monthly bank reconciliation are not reviewed by driver's license location. These variances are aggregated, adjusted and reviewed in total. Therefore, neither DOT nor TOS are able to determine if any individual location has an unusually high number of adjustments, either in dollar amount or frequency.

In addition, a tolerance level has not been established to allow the TOS employee reconciling the bank statements to determine if a variance between the documentation provided by DOT and the bank statements is reasonable.

Effective July 1, 2010, DOT and TOS changed their procedures regarding adjustments. The TOS employee now generates a report detailing the variances identified by location, which is provided to the DOT employee for further review and follow-up. The determination of which variances to pursue and the amount of any adjustments made are at the discretion of DOT.

Recommendation – DOT officials should implement a procedure to ensure adjustments made by the individual driver's license locations are periodically reviewed for reasonableness and adjustments made as a result of variances identified by TOS are reviewed by location and not in total. In addition, DOT should establish a dollar threshold for which adjustments and/or variances are to be investigated further. TOS should continue to maintain sufficient supporting documentation to ensure variances identified are detailed by driver's license location.

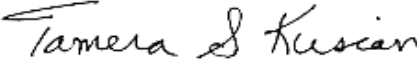
Also, sufficient supporting documentation should be maintained for adjustments made by the individual driver's license locations, as well as adjustments made by DOT employees.

Report on Special Investigation of the
Driver's License Function within the
Sioux County Treasurer's Office

Staff

This special investigation was performed by:

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