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Missouri State Auditor

State of Missouri
Comprehensive Annual Financial Report
Report on Internal Control, Compliance, and Other Matters
Year Ended June 30, 2020

Report No. 2021-017

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auditor.mo.gov



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CITIZENS SUMMARY

Findings in the Comprehensive Annual Financial Report Report on Internal Control, Compliance, and Other Matters

Department of Revenue Financial Reporting Controls	The Department of Revenue does not have adequate controls and procedures over financial reporting of motor vehicle sales tax accounts receivable. As a result, net accounts receivable and related liability balances submitted to the Office of Administration - Division of Accounting (DOA) for inclusion in the <i>Missouri Comprehensive Annual Financial Report</i> for the year ended June 30, 2020, were overstated by at least \$292 million.
Department of Social Services Financial Reporting Controls	The Department of Social Services - Division of Finance and Administrative Services does not have adequate controls and procedures over financial reporting of accounts payable. As a result, accounts payable data submitted to the DOA for inclusion in the <i>Missouri Comprehensive Annual Financial Report</i> for the year ended June 30, 2020, was overstated by approximately \$17.5 million.

Because of the nature of this audit, no rating is provided.

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Introduction

Summary of Financial Statement Audit Results

We issued our audit report (Report No. 2021-006¹) of the state's Comprehensive Annual Financial Report (Annual Report), as of and for the year ended June 30, 2020, on February 25, 2021. The state's financial statements covered approximately \$47 billion in total assets and approximately \$31 billion in total expenses for state fiscal year 2020. Our report expressed qualified opinions on the governmental activities and the General Fund because we were not allowed access to tax returns and related source documents for income taxes. Our report expressed unmodified opinions on all remaining opinion units.

In connection with the audit, we tested internal controls and compliance with laws and regulations. The results of our tests are contained herein in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. We reported two findings related to internal control deficiencies. These findings were at the Department of Revenue and the Department of Social Services. We consider these findings to be a material weakness and a significant deficiency. The state agencies' responses to the findings are included in this report. The agencies prepared a Corrective Action Plan (CAP) for each finding. The CAPs were submitted to the Office of Administration (OA) and will be included in the Corrective Action Plans section of the State of Missouri - Single Audit Report, to be issued later.

The state agencies prepared and submitted to the OA the status of the prior audit findings. They will be presented in the Summary Schedule of Prior Audit Findings section of the State of Missouri - Single Audit Report.

¹ The Annual Report is available online at: <<https://oa.mo.gov/accounting/reports/annual-reports/comprehensive-annual-financial-reports>>.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Michael L. Parson, Governor
and
Members of the General Assembly

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Missouri, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the state's basic financial statements, and have issued our report thereon dated February 25, 2021. Our report expressed qualified opinions on the governmental activities and the General Fund, a major fund, because we were not allowed access to tax returns and related source documents for income taxes. Approximately 26 percent of governmental activity revenues and 31 percent of General Fund revenues are from this source. We were unable to satisfy ourselves by appropriate audit procedures as to the income tax revenue beyond the amounts recorded. Our report expressed unmodified opinions on all remaining opinion units.

Our report on the state of Missouri's financial statements includes a reference to other auditors who audited the financial statements of:

1. The Missouri Road Fund, a major fund; the Missouri Road Bond Fund; the Conservation Employees' Insurance Plan; the Transportation Self-Insurance Plan; the Missouri State Employees' Insurance Plan; the Missouri Consolidated Health Care Plan; and the Missouri Department of Transportation and Missouri State Highway Patrol Medical and Life Insurance Plan which represent 71 percent of the assets and 11 percent of the revenues of the governmental activities.
2. The State Lottery, a major fund, and the Petroleum Storage Tank Insurance Fund which represent 16 percent of the assets and 35 percent of the revenues of the business-type activities.
3. The aggregate discretely presented component units.
4. The pension (and other employee benefit) trust funds and the Missouri Department of Transportation agency funds which represent 93 percent of the assets and 97 percent of the additions of the fiduciary funds.

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

The financial statements of the Conservation Employees' Insurance Plan, the Missouri State Employees' Insurance Plan, and the Missouri Consolidated Health Care Plan, internal service funds; the Missouri Development Finance Board, the Missouri Agricultural and Small Business Development Authority, and the State Environmental Improvement Energy Resources Authority, discretely presented component units; and the pension (and other employee benefit) trust funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the state of Missouri's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state's internal control. Accordingly, we do not express an opinion on the effectiveness of the state's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the state's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as finding number FS2020-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as finding number FS2020-002 to be a significant deficiency.

Compliance and Other Matters

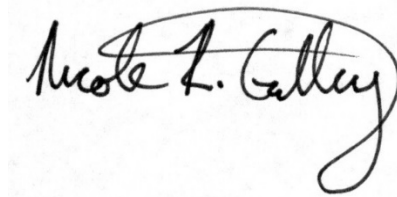
As part of obtaining reasonable assurance about whether the state of Missouri's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

State's Responses to the Findings

The state of Missouri's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The state's responses were not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Section 29.200, RSMo, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is written in a cursive style with a large, looping "G" at the end.

Nicole R. Galloway, CPA
State Auditor

February 25, 2021

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FS2020-001.

Department of Revenue Financial Reporting Controls

The Department of Revenue (DOR) does not have adequate controls and procedures over financial reporting of motor vehicle sales tax accounts receivable. As a result, net accounts receivable and related liability balances submitted to the Office of Administration - Division of Accounting (DOA) for inclusion in the *Missouri Comprehensive Annual Financial Report* (Annual Report) for the year ended June 30, 2020, were misstated. If the misstatements had not been identified during the audit, net accounts receivable and related liability balances for governmental and agency funds would have been overstated by at least \$292 million in the Annual Report.

To determine and submit net accounts receivable and related liability balances for delinquent motor vehicle sales taxes to the DOA, the DOR - Administration Division first obtains reports totaling gross accounts receivable and the allowance for uncollectible accounts generated from the computerized Delinquent Fee system maintained by the DOR - Motor Vehicle and Driver Licensing Division. The Administration Division then allocates the gross accounts receivable and uncollectible amounts to certain governmental and agency funds. Our review and testing of the accounts comprising the gross accounts receivable and uncollectible amounts, and allocations of these amounts identified the following concerns.

- The Delinquent Fee system does not include complete and accurate data for some transactions; therefore, the accounts receivable reports generated from the system, and used to determine balances reported to the DOA, were inaccurate. Our testing of individual motor vehicle sales tax accounts receivable balances as of June 30, 2020, identified some accounts that included no local sales tax rate, and some accounts that had no or an incorrect vehicle purchase price recorded, resulting in inaccurate amounts due from taxpayers for state and local sales taxes.
- The gross accounts receivable amount was understated by approximately \$94 million because old accounts from fiscal years 1989 through 2011 were included in the allowance for uncollectible accounts report, but were not included in the gross accounts receivable report.
- The allowance for uncollectible accounts report was understated by at least \$386 million because the methodology for determining uncollectible amounts was not representative of actual historical collection activities. Our analysis of delinquent motor vehicle sales tax accounts receivable balances from fiscal years 2011 through 2020, noted there is minimal collection on delinquent amounts after the first year.
- The gross accounts receivable and uncollectible amounts were not properly allocated to the governmental and agency funds because no consideration was given for the portion related to local sales taxes. As a result, the gross accounts receivable and uncollectible amounts allocated



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to the governmental funds were overstated and amounts allocated to the agency funds were understated.

Once these issues were identified and brought to the DOR's attention, the Administration Division made corrections to include previously omitted amounts in the gross accounts receivable amount, to revise the methodology for determining uncollectible amounts, and to correctly allocate the gross accounts receivable and uncollectible amounts for local sales taxes to the agency funds. The Administration Division submitted revised reports for the motor vehicle sales tax accounts receivable and related liability balances to the DOA. DOR officials indicated they will continue to reevaluate the calculations and methodologies going forward. Had the corrections not been made, the net accounts receivable and related liability amounts would have been overstated by at least \$292 million.

These misstatements relate to the net accounts receivable and related liability balances for several governmental and agency funds reported within various opinion units of the Annual Report. The DOA made corrections to the Annual Report prior to its completion and similarly restated year ended June 30, 2019, amounts.

It is essential the DOR establish controls and procedures to prepare and submit accurate accounts receivable balances to the DOA. The *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States, states management is responsible for the design, implementation, and operating effectiveness of the internal control system and that control activities should be designed to achieve objectives and respond to risks. Such controls would allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements.

Recommendation

The DOR implement controls and procedures to prepare and submit accurate motor vehicle sales tax accounts receivable reports to the DOA.

Auditee's Response

The DOR understands the auditor's finding. The DOR wants to reassure our customers that the finding does not have any effect on them or result in any added cost to them. Our Corrective Action Plan includes our planned actions to address the finding.

FS2020-002. Department of Social Services Financial Reporting Controls

The Department of Social Services (DSS) - Division of Finance and Administrative Services (DFAS) does not have adequate controls and procedures over financial reporting of accounts payable. As a result, accounts payable data submitted to the Office of Administration - Division of Accounting (DOA) for inclusion in the *Missouri Comprehensive Annual Financial Report* (Annual Report) for the year ended June 30, 2020, was misstated. If the misstatement had not been identified during the audit,



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accounts payable would have been overstated by approximately \$17.5 million in the Annual Report.

To compile the accounts payable balances for the Annual Report, the DOA provides the DFAS a statewide accounting (SAM II) system report of transactions coded as year-end accounts payable. DFAS personnel review the transactions and supporting documentation, and prepare and submit to the DOA a report of additional accounts payable. This report includes adjustments to the SAM II system report, plus accounts payable balances associated with non-SAM II transactions.

The DFAS has not documented the process, procedures, or internal controls for reporting accounts payable data to the DOA. In addition, during the audit, DFAS personnel had difficulties explaining the procedures performed and locating documentation supporting the year ended June 30, 2020, additional accounts payable report. DFAS personnel stated the report was prepared by a different employee than in previous years, the employee resigned, and complete documentation was not retained.

For the year ended June 30, 2020, the DFAS identified transactions totaling approximately \$8.74 million incorrectly coded in the SAM II system that were included in the SAM II system accounts payable report. Rather than reporting a negative adjustment to subtract these transactions from the accounts payable balances, the DFAS incorrectly made a positive adjustment, causing the additional accounts payable reported to the DOA to be overstated by approximately \$17.5 million. This error was not detected in the DSS supervisory review of the additional accounts payable report. After our inquiries, DFAS personnel submitted to the DOA a revised additional accounts payable report.

It is essential the DFAS establish controls and procedures to prepare and submit accurate accounts payable reports to the DOA. The *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States, states management is responsible for the design, implementation, and operating effectiveness of the internal control system and that control activities should be designed to achieve objectives and respond to risks. Such controls would allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements.

Recommendation

The DSS through the DFAS implement controls and procedures to prepare and submit accurate accounts payable reports to the DOA.

Auditee's Response

The DSS agrees with this finding. The DSS had a transition of staff during the timeframe for completing the accounts payable reports. The DSS is currently in the process of developing and formalizing written policies and procedures



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for preparing accounts payable reports. New team members responsible for report preparation will receive training by the Accounts Payable Manager or his/her designee.

Regarding the supervisory review, the review occurred and it was determined the accounts payable report was within a reasonable range of normal submission.