

The seal of the State Auditor of Missouri is circular. It features a central figure holding a scale and a sword, with a star above. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

# Nicole Galloway, CPA

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## Missouri State Auditor

State of Missouri  
Annual Comprehensive Financial Report  
Report on Internal Control, Compliance, and Other Matters  
Year Ended June 30, 2021

Report No. 2022-022

March 2022

[auditor.mo.gov](http://auditor.mo.gov)



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the Annual Comprehensive 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 sales and use 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 Annual Comprehensive Financial Report (ACFR)</i> for the year ended June 30, 2021, were understated by approximately \$87 million.
Department of Natural Resources Capital Asset Controls	The Department of Natural Resources does not have adequate controls and procedures over reporting capital assets in the statewide accounting system. If the accounting system errors had not been identified during the audit, Government Wide - Business Type Activities and Non-Major Enterprise Fund accumulated depreciation of capital assets would have been overstated and net capital assets would have been understated by approximately \$25.4 million in the ACFR for the year ended June 30, 2021.
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 federal grant accounts receivable. As a result, accounts receivable data submitted to the DOA for inclusion in the ACFR for the year ended June 30, 2021, was understated by approximately \$16.3 million.
Department of Labor and Industrial Relations UInteract System Controls	The Department of Labor and Industrial Relations needs to improve certain UInteract system controls. System controls were not sufficient to prevent or detect improper payments authorized by an employee totaling approximately \$123,000 during fiscal years 2020 and 2021.

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

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# State of Missouri - Annual Comprehensive Financial Report

## Report on Internal Control, Compliance, and Other Matters

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# State of Missouri - Annual Comprehensive Financial Report

## Report on Internal Control, Compliance, and Other Matters

### Introduction

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#### **Summary of Financial Statement Audit Results**

In fulfillment of our duties under Section 29.200.10, RSMo, we issued our audit report (Report No. 2022-002<sup>1</sup>) of the state's Annual Comprehensive Financial Report (ACFR), as of and for the year ended June 30, 2021, on January 21, 2022. The state's financial statements covered approximately \$50 billion in total assets and approximately \$35 billion in total expenses for state fiscal year 2021. 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 four findings related to internal control deficiencies. These findings were at the Department of Revenue, the Department of Natural Resources, the Department of Social Services, and the Department of Labor and Industrial Relations. We consider these findings to be significant deficiencies. 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.

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



## **NICOLE GALLOWAY, CPA**

### **Missouri State Auditor**

#### 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, 2021, and the related notes to the financial statements, which collectively comprise the state's basic financial statements, and have issued our report thereon dated January 21, 2022. 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 29 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 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 70 percent of the assets and 10 percent of the revenues of the governmental activities.
2. The State Lottery, a major fund, and the Petroleum Storage Tank Insurance Fund which represent 24 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 custodial funds which represent 93 percent of the assets and 98 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 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.

*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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as finding numbers FS2021-001 through FS2021-004 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

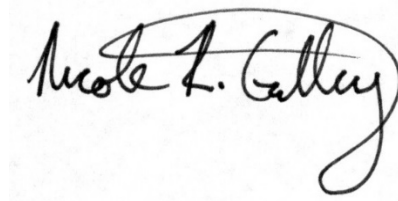
As part of obtaining reasonable assurance about whether the state of Missouri's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA  
State Auditor

January 21, 2022

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# State of Missouri - Annual Comprehensive Financial Report

## Report on Internal Control, Compliance, and Other Matters

### Schedule of Findings

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#### **FS2021-001.**

#### **Department of**

#### **Revenue Financial**

#### **Reporting Controls**

The Department of Revenue (DOR) does not have adequate controls and procedures over financial reporting of sales and use 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 Annual Comprehensive Financial Report* (ACFR) for the year ended June 30, 2021, were misstated. If the misstatements had not been identified during the audit, net accounts receivable and related liability balances for governmental and fiduciary funds would have been understated by approximately \$87 million in the ACFR.

To determine and submit net accounts receivable and related liability balances for delinquent sales and use taxes to the DOA, the DOR - Administration Division first obtains reports totaling gross accounts receivable generated from the computerized Revenue Premier system maintained by the DOR - Taxation Division. The Administration Division then performs calculations to estimate the percentage of accounts receivable considered uncollectible. This uncollectible percentage is then applied to the gross accounts receivable balances to determine the net accounts receivable and related liability balances to be reported in the ACFR. Our review of the calculations to determine the uncollectible percentage identified various calculation errors that resulted in the uncollectible percentage being significantly overstated. When this percentage was applied to the gross accounts receivable balances, it resulted in the net accounts receivable and related liability balances being understated by approximately \$87 million.

After we identified the calculation errors and discussed them with DOR personnel, the Administration Division recalculated the uncollectible percentage and applied that percentage to the gross accounts receivable balances, resulting in corrected net accounts receivable and related liability balances. The Administration Division submitted the revised reports to the DOA. DOR officials said they have taken steps to minimize the risk of future misstatements. When reviewing fiscal year 2021 ACFR reports and background information, the DOR only had one employee accountable for ensuring accuracy and approving the reports and other information. For fiscal year 2022 and future years, the officials indicated they will use a two-person review process of both paper and electronic documentation to improve accuracy.

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 the control activities should be designed to achieve objectives and respond to risks. Such controls would allow management or employees, in





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the normal course of performing their assigned functions, to prevent or detect and correct misstatements.

The misstatements identified affected the net accounts receivable and related liability balances for several governmental and fiduciary funds reported within various opinion units of the ACFR. The DOA corrected the ACFR prior to its completion.

## Recommendation

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

## Auditee's Response

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

## **FS2021-002. Department of Natural Resources Capital Asset Controls**

The Department of Natural Resources (DNR) does not have adequate controls and procedures over reporting capital assets in the statewide accounting (SAM II) system. If the accounting system errors had not been identified during the audit, Government Wide - Business Type Activities and Non-Major Enterprise Fund accumulated depreciation of capital assets would have been overstated and net capital assets would have been understated by approximately \$25.4 million in the *Missouri Annual Comprehensive Financial Report (ACFR)* for the year ended June 30, 2021.

When capital assets are acquired (by purchasing the asset or by completing the related construction-in-progress asset), DNR Accounting Division personnel enter the capital asset information, including the estimated useful life and type of asset, into the SAM II system. The fixed asset manual issued by the Office of Administration - Division of Accounting (DOA) provides recommended useful life estimates for various capital asset types (e.g., 15 to 20 years for land improvements). Once the asset information has been entered and approved by a supervisor, the SAM II system begins depreciating the assets over the useful life. If no useful life is entered for an asset, the SAM II system will fully depreciate the asset in the same fiscal year it was acquired. The DOA uses SAM II asset balances and depreciation amounts for inclusion in the ACFR.

For several DNR state park assets acquired during fiscal years 2006 through 2021, DNR Accounting Division personnel did not enter a useful life in the SAM II system. As a result, the SAM II system fully depreciated the assets during the year each asset was acquired instead of over the recommended 2 to 5 years for equipment, 15 to 20 years for land improvements, or 40 to 50 years for buildings. These errors were not detected in the supervisory review and approval of the capital asset entries. DNR Accounting Division personnel identified these errors in May 2021, and attempted to correct them. DNR officials could not provide documentation supporting these corrections.



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Upon our audit inquiries, DNR Accounting Division personnel determined the May 2021 corrections were erroneous and they worked with the DOA to correct the SAM II system information. The DOA made corrections to the ACFR, including restatements of prior year amounts, prior to its completion; and revised the useful life for the assets in the SAM II system to accurately calculate the depreciation expense in future periods. Had the corrections not been made, the Government Wide - Business Type Activities and Non-Major Enterprise Fund accumulated depreciation of capital assets would have been overstated and net capital assets would have been understated by approximately \$25.4 million for the year ended June 30, 2021.

DNR officials indicated the errors occurred and were not properly corrected due to inadequate training and review procedures. They stated they have provided additional training for Accounting Division personnel and have instituted bi-monthly reviews of capital asset balances. It is essential the DNR strengthen controls and procedures to ensure capital assets are accurately reported in the SAM II system. 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 DNR strengthen controls and procedures to ensure capital assets are accurately reported in the SAM II system.

**Auditee's Response**

*Department management agrees with the recommendation. Future period depreciation and the useful life were corrected for the capital assets in question. We implemented procedures in December 2021 to monitor the depreciation of assets on a monthly basis.*

**FS2021-003.  
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 federal grant accounts receivable. As a result, accounts receivable data submitted to the Office of Administration - Division of Accounting (DOA) for inclusion in the *Missouri Annual Comprehensive Financial Report (ACFR)* for the year ended June 30, 2021, was misstated. If the misstatement had not been identified during the audit, accounts receivable would have been understated by approximately \$16.3 million in the ACFR financial statements.

Accounts receivable reported in the ACFR include federal grant costs as of June 30, expected to be reimbursed by federal grantor agencies in July and August. To compile and submit accounts receivable data to the DOA, DFAS



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personnel extract federal grant financial information from quarterly cash on hand (COH) reports. Data in the COH reports come from multiple sources such as federal letters of credit, grant drawdowns, and expenditure reports filed with the grantor agencies.

For the year ended June 30, 2021, some COH reports did not include certain grant financial information. As a result, DFAS personnel did not include approximately \$16.3 million in the accounts receivable reported to the DOA. The amount not reported involves funds transferred from the Temporary Assistance for Needy Family (TANF) program to the Social Services Block Grant program, for the 9 months ended June 30, 2021. This error occurred because DFAS procedures did not include a review of the COH reports for accuracy and completeness, or a reconciliation against finalized TANF expenditure reports. It was not detected as part of supervisory review of the accounts receivable data. After we identified the issue and discussed it with department officials, DFAS personnel submitted a revised accounts receivable report to the DOA.

It is essential the DFAS strengthen controls and procedures to prepare and submit accurate accounts receivable reports to the DOA. The *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States, states that 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 strengthen controls and procedures to prepare and submit accurate accounts receivable reports to the DOA.

## Auditee's Response

*The DSS agrees with this finding. The DSS notes that the referenced cash on hand (COH) reports were actually reviewed for accuracy at a point in time prior to the completion of all federal grant reports. The COH report is due and completed by day 30 following the end of the quarter with an estimate of the Temporary Assistance Grant as the Temporary Assistance Grant report is due and completed on day 45 following the end of the quarter.*

*The DSS will use the Temporary Assistance Grant federal financial report rather than the estimate on the COH report to ensure accurate accounts receivable reporting.*



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**FS2021-004.**  
**Department of Labor and Industrial Relations UInteract System Controls**

The Department of Labor and Industrial Relations (DOLIR) needs to improve certain UInteract system controls. System controls were not sufficient to prevent or detect improper payments authorized by an employee totaling approximately \$123,000 during fiscal years 2020 and 2021.

The DOLIR implemented the UInteract system in 2016 for determining eligibility and making payments for the Unemployment Insurance (UI) program. During fiscal years 2020 and 2021, the system was expanded to include several new federal pandemic unemployment benefit programs. During the year ended June 30, 2021, the DOLIR made various program benefit payments totaling approximately \$3.4 billion.

At the beginning of the audit, DOLIR personnel reported to us that improper payments were authorized by an employee. Our audit procedures revealed UInteract system control weaknesses that did not prevent or detect the improper payments. We are not disclosing details of the system control issues in this report because of the sensitivity of the activities and to avoid compromising the confidentiality of the DOLIR's resources. Under Section 610.021(21), RSMo, a governmental body is authorized to close records to the extent the records identify the operations of and would allow unauthorized access or unlawful disruption of its computer, computer system, computer network, or telecommunications network. We provided detailed information regarding the specific conditions, criteria, causes, and effects we identified, and recommendations confidentially to DOLIR officials so they could take corrective action.

Rule 2 CFR Section 200.303(a) requires the non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States or the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission." The *Standards for Internal Control in the Federal Government*, also known as the Green Book, requires management to develop and maintain documentation of its internal control system. Paragraph 11.01 of the Green Book states, "Management should design the entity's information system and related control activities to achieve objectives and respond to risks."

**Recommendation**

The DOLIR implement the confidentially communicated recommendations for improving UInteract system controls and correct the improper payments.

**Auditee's Response**

*We agree with the auditor's finding. Our Corrective Action Plan includes our planned actions to address the finding.*