



# Scott Fitzpatrick

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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, 2022

Report No. 2023-022

May 2023

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



**Scott Fitzpatrick**  
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 certain governmental and custodial fund financial activities. If not for calculation errors discovered by the audit, the Government Wide - Governmental Activities and General Fund net accounts receivable and related liability balances would have been overstated by approximately \$75 million in the State of Missouri Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022. Auditors also found several other calculation errors that resulted in both the overstatement and understatement of various balances.
Department of Social Services Financial Reporting Controls - Medicaid Payments	The Department of Social Services (DSS) - MO HealthNet Division (MHD) does not have adequate controls and procedures over financial reporting of Medicaid payment data. As a result, Medicaid payment data submitted to the Office of Administration (OA) - Division of Accounting (DOA) and used to estimate Medicaid accounts receivable and payable for inclusion in the ACFR for the year ended June 30, 2022, was misstated. If the misstatements had not been identified during the audit, Government Wide - Governmental Activities and General Fund accounts receivable would have been understated by approximately \$23 million and accounts payable would have been understated by approximately \$60 million in the ACFR.
Department of Social Services Financial Reporting Controls - Medicaid Accounts Receivable	The MHD does not have adequate controls and procedures over financial reporting of Medicaid drug rebate accounts receivable. As a result, data submitted to the DOA for inclusion in the ACFR for the year ended June 30, 2022, was misstated. If the misstatement had not been identified during the audit, Government Wide - Governmental Activities and General Fund net accounts receivable and related liability balances would have been overstated by approximately \$30.6 million in the ACFR.
Department of Social Services Financial Reporting Controls - Accounts Payable	The DSS - 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 ACFR for the year ended June 30, 2022, was misstated. If the misstatement had not been identified during the audit, Government Wide - Governmental Activities and General Fund accounts payable would have been overstated by approximately \$5.9 million in the ACFR.
Department of Natural Resources Financial Reporting Controls	The Department of Natural Resources does not have adequate controls and procedures over financial reporting of loans receivable. As a result, the loans receivable balance submitted to the DOA for inclusion in the ACFR for the year ended June 30, 2022, was misstated. If the misstatement had not been identified during the audit, the Government Wide - Governmental Activities and Conservation and Environmental Protection Fund loans receivable balance would have been overstated by approximately \$27.5 million in the ACFR.

Office of Secretary of State Financial Reporting Controls	The Office of Secretary of State does not have adequate controls and procedures over financial reporting of accounts receivable. As a result, civil penalty accounts receivable data submitted to the DOA for inclusion in the ACFR for the year ended June 30, 2022, was misstated. If the resulting misstatements had not been identified during the audit, Government Wide - Governmental Activities and Public Education Fund net accounts receivable and related liability balances would have been overstated by at least \$9.7 million in the ACFR.
Department of Labor and Industrial Relations Financial Reporting Controls	The Department of Labor and Industrial Relations does not have adequate controls and procedures over financial reporting of Unemployment Compensation Fund financial activities. As a result, some balances submitted to the DOA for inclusion in the ACFR for the year ended June 30, 2022, were misstated, including an overstatement of the net position balance by approximately \$8 million. In addition, the financial reports were not submitted timely to the DOA.
Office of Administration Financial Reporting Controls - Fund Balance Classifications	The DOA does not have adequate controls and procedures over classification of ending fund balances. If a fund balance classification error had not been corrected, the Government Wide - Governmental Activities and General Fund restricted fund balance would have been overstated, and the unassigned fund balance would have been understated, by approximately \$1.4 billion in the ACFR for the year ended June 30, 2022.
Office of Administration SAM II Transaction Approvals	As noted in the Statewide Accounting System Internal Controls audit, OA management has not fully corrected a weakness in the Statewide Advantage for Missouri (SAM II) Financial system security settings that allows users to create a transaction and then apply approval to the same transaction without review or additional approval from another party.

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. 2023-010<sup>1</sup>) of the State of Missouri's Annual Comprehensive Financial Report (ACFR), as of and for the year ended June 30, 2022, on March 24, 2023. To avoid the appearance of a conflict of interest, the State Auditor recused himself from participation in the ACFR audit because he managed various cash and investment balances in his role as State Treasurer as of June 30, 2022. He directed the Audit Director to oversee procedures performed by the State Auditor's professional audit staff.

The State of Missouri's financial statements covered approximately \$57 billion in total assets and approximately \$34 billion in total expenses for state fiscal year 2022. 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 nine findings related to internal control deficiencies at five state agencies and one office. We consider these findings to be significant deficiencies. The state agencies' and office's responses to the findings are included in this report. The agencies and office 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 and offices 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>>.



**SCOTT FITZPATRICK**  
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, 2022, and the related notes to the financial statements, which collectively comprise the State of Missouri's basic financial statements, and have issued our report thereon dated March 24, 2023. 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 29 percent of governmental activities revenues and 32 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 61 percent of the assets and 9 percent of the revenues of the governmental activities.
2. The State Lottery Fund, a major fund, and the Petroleum Storage Tank Insurance Fund which represent 17 percent of the assets and 79 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 92 percent of the assets and 3 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, 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*. Accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with these entities and funds.

### **Report on 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 of Missouri's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Missouri'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 of Missouri'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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as finding numbers FS2022-001 through FS2022-009 that we consider to be significant deficiencies.

### **Report on 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 of Missouri's Responses to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the State of Missouri's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The State of Missouri'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.



Kim Spraggs, CPA, CGAP  
Director of Audits

March 24, 2023



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# State of Missouri - Annual Comprehensive Financial Report

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

### Schedule of Findings and Responses

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#### **FS2022-001.**

#### **Department of Revenue**

#### **Financial Reporting**

#### **Controls**

The Department of Revenue (DOR) does not have adequate controls and procedures over financial reporting of certain governmental and custodial fund financial activities. As a result, some balances submitted to the Office of Administration - Division of Accounting (DOA) for inclusion in the State of Missouri Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022, were misstated.

To determine and submit financial activities of governmental and custodial funds to the DOA, the DOR - Administration Division first obtains reports generated from the DOR's various computerized systems. Information from these reports is then extracted into schedules, and various calculations are performed to determine the balances to be reported to the DOA. Our review of the governmental and custodial fund balances submitted to the DOA for inclusion in the ACFR identified the following concerns.

- Errors were identified in the calculations to estimate the allowance for uncollectible balances for withholding income tax and corporate income tax accounts receivable. In addition, the calculation of net accounts receivable for corporate income tax incorrectly used the estimated allowance for uncollectible balance calculated for withholding income tax.<sup>2</sup> If these errors had not been identified during the audit, Government Wide - Governmental Activities and General Fund net accounts receivable and related liability balances would have been overstated by approximately \$75 million in the ACFR. After we identified the calculation errors and discussed them with DOR personnel, the Administration Division submitted revised reports to the DOA and the DOA made the corrections prior to completing the ACFR.
- As similarly noted in our previous audit,<sup>3</sup> various errors were identified in the calculation to estimate the uncollectible percentage for sales and use tax accounts receivable. As a result, net accounts receivable and related liability balances were overstated by approximately \$71,000. Since these errors did not result in material misstatements to the affected opinion units, no revisions were submitted to the DOA.
- Calculation errors were identified in the reports used to determine gross delinquent accounts receivable balances for motor vehicle sales tax accounts receivable. In addition, the calculation to estimate the allowance

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<sup>2</sup>For withholding income tax and corporate income tax accounts receivable, our audit work was limited to reviewing these calculations. We were not allowed access to tax returns and related source documents for income taxes.

<sup>3</sup>See State of Missouri Annual Comprehensive Financial Report - Report on Internal Control, Compliance, and Other Matters, Year Ended June 30, 2021 at <<https://auditor.mo.gov/AuditReport/ViewReport?report=2022022>>, finding number FS2021-001.



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for uncollectible balances was not in accordance with the DOR's current methodology. These errors resulted in net accounts receivable and related liability balances for governmental funds being understated by approximately \$379,000, and asset and additions balances for custodial funds being understated by approximately \$3.2 million. Since these errors did not result in material misstatements to the affected opinion units, no revisions were submitted to the DOA.

- Several errors were identified in the calculation and allocation of custodial fund beginning balances and financial activities for the Motor Fuel Tax and Bonds Non-State Fund and the Sales and Use Tax Non-State Fund. If these errors had not been identified during the audit, certain Custodial Funds - Program balances would have been misstated in the ACFR as noted in the table below.

Account Type	Custodial Funds - Program Overstated/(Understated)
Assets	\$(56,779,000)
Additions	\$(49,851,000)
Deductions	\$ 24,945,000

After we identified the errors and discussed them with DOR personnel, the Administration Division submitted revised reports to the DOA and the DOA made the corrections prior to completing the ACFR.

- Additional errors were identified in the custodial fund schedules for the Motor Fuel Tax and Bonds Non-State Fund and the Sales and Use Tax Non-State Fund. In total, the asset and additions balances for these funds were overstated by approximately \$63 million in the custodial fund schedules. After we identified the errors and discussed them with DOR personnel, the Administration Division submitted revised reports to the DOA. Because the misstatements were not material to the affected opinion unit, the DOA made no corrections to the ACFR.

In response to our finding in the previous audit, DOR personnel indicated their corrective action included performing an evaluation of their current ACFR reporting process and establishing a new two-step review process for all financial reports submitted to the DOA and the State Auditor's Office. However, the DOR's newly implemented review process did not detect the errors noted above.

It is essential the DOR strengthen controls and procedures to prepare and submit accurate financial 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



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and the 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 strengthen controls and procedures to prepare and submit accurate financial 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 or added cost to them. Our Corrective Action Plan includes our planned actions to address the finding.*

### **FS2022-002. Department of Social Services Financial Reporting Controls - Medicaid Payments**

The Department of Social Services (DSS) - MO HealthNet Division (MHD) does not have adequate controls and procedures over financial reporting of Medicaid payment data. As a result, Medicaid payment data submitted to the Office of Administration - Division of Accounting (DOA) and used to estimate Medicaid accounts receivable and payable for inclusion in the State of Missouri Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022, was misstated. If the misstatements had not been identified during the audit, Government Wide - Governmental Activities and General Fund accounts receivable would have been understated by approximately \$23 million and accounts payable would have been understated by approximately \$60 million in the ACFR.

To compile and submit Medicaid payment data to the DOA, MHD personnel extract payment information from the statewide accounting (SAM II) system, management reports from the Medicaid Management Information System (MMIS), and various payment documents. The DOA uses the payment data to estimate Medicaid accounts receivable and accounts payable amounts for inclusion in the ACFR.

For the year ended June 30, 2022, the MMIS management reports did not include payments beginning in October 2021, on behalf of the Medicaid Adult Expansion Group, a new population that became eligible with the Medicaid expansion effective as of July 1, 2021. As a result, MHD personnel did not include approximately \$538 million in the Medicaid payments report to the DOA. The error occurred because some MMIS management reports were not updated with the Medicaid expansion, and MHD and DSS - Division of Finance and Administrative Services (DFAS) supervisory reviews did not detect the missing payment information.

After we identified the issue and discussed it with department officials, DFAS personnel submitted a revised Medicaid payment report to the DOA. If the report had not been revised, accounts receivable would have been understated by approximately \$23 million and accounts payable would have been understated by approximately \$60 million.



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It is essential the DSS strengthen controls and procedures to prepare and submit accurate Medicaid payment 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 MHD and the DFAS strengthen controls and procedures to prepare and submit accurate Medicaid payment reports to the DOA.

## Auditee's Response

*The DSS agrees with the State Auditor's Office's recommendation. The Corrective Action Plan includes the department's planned actions to address the finding. MO HealthNet and Research and Evaluation staff have worked together to update coding on the reports used in the creation of the Annual Comprehensive Financial Report to include the Medicaid Expansion group.*

### **FS2022-003. Department of Social Services Financial Reporting Controls - Medicaid Accounts Receivable**

The Department of Social Services (DSS) - MO HealthNet Division (MHD) does not have adequate controls and procedures over financial reporting of accounts receivable. As a result, Medicaid drug rebate accounts receivable data submitted to the Office of Administration - Division of Accounting (DOA) for inclusion in the State of Missouri Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022, was misstated. If the misstatement had not been identified during the audit, Government Wide - Governmental Activities and General Fund net accounts receivable and related liability balances would have been overstated by approximately \$30.6 million in the ACFR.

The MHD reports various accounts receivable data, including data related to drug manufacturer rebates for Medicaid pharmacy claims, to the DOA. To compile drug rebate accounts receivable data, MHD personnel extract and enter financial information from Medicaid Management Information System (MMIS) accounts receivable summary reports into a spreadsheet. Because the MMIS report activity and balances are cumulative through the date the reports are generated, MHD personnel adjust the spreadsheet to reflect the MMIS report ending balance and activity for transactions after June 30.

Our review of the drug rebate accounts receivable spreadsheet for the year ended June 30, 2022, identified multiple errors. MHD personnel did not increase the MMIS report ending accounts receivable balance for \$13 million in collections made after June 30, 2022. In addition, MHD personnel made \$43 million of data entry errors. These errors resulted in the Medicaid drug rebate net accounts receivable and related liability balances being overstated by approximately \$30.6 million.



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While MHD and DSS - Division of Finance and Administrative Services (DFAS) personnel stated they reviewed the spreadsheet and accounts receivable report for accuracy and completeness prior to submission to the DOA, their reviews did not detect the errors. After we identified the spreadsheet errors and discussed them with department officials, DSS personnel corrected the spreadsheet and submitted a revised accounts receivable report to the DOA.

It is essential the DSS 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 MHD and the DFAS strengthen controls and procedures to prepare and submit accurate Medicaid accounts receivable reports to the DOA.

## Auditee's Response

*The DSS agrees with the State Auditor's Office's recommendation. The Corrective Action Plan includes the department's planned actions to address the finding. MO HealthNet staff will examine the methodology used in the creation of the Medicaid accounts receivable report and will adjust accordingly. MO HealthNet and DFAS staff will continue to ensure reviews are completed.*

### **FS2022-004. Department of Social Services Financial Reporting Controls - Accounts Payable**

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 State of Missouri Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022, was misstated. If the misstatement had not been identified during the audit, Government Wide - Governmental Activities and General Fund accounts payable would have been overstated by approximately \$5.9 million in the ACFR.

To compile the accounts payable balances for the ACFR, the DOA provides the DFAS a statewide accounting (SAM II) system report of transactions coded as year-end accounts payable. DFAS personnel are to review the transactions and supporting documentation, and prepare and submit to the DOA a report of adjustments that need to be made to the report, plus



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additional accounts payable balances associated with non-SAM II transactions.

For the year ended June 30, 2022, the DFAS reviewed significantly fewer SAM II transactions for accounts payable reporting purposes than in previous years. As a result, the DFAS did not identify adjustments, totaling approximately \$1.3 million, needed to reduce amounts in the SAM II system report. Adjustments were needed for transactions incorrectly coded in the SAM II system and for transactions that should have been excluded from the DOA SAM II system report. DFAS personnel indicated procedural changes were made to save time and improve efficiencies.

Also, the DFAS did not accurately determine additional non-SAM II transactions that needed to be reported. As a result, the DFAS overstated additional non-SAM II accounts payable by approximately \$4.6 million. DFAS personnel indicated multiple new DFAS team members were involved in the reporting process this year and documented procedures did not include a necessary step in that process. Supervisory reviews did not detect the overstatement.

After our inquiries, DFAS personnel submitted to the DOA a revised additional accounts payable report. The revision resolved the SAM II system and non-SAM II transaction overstatements totaling approximately \$5.9 million.

It is essential the DFAS strengthen 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 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 payable reports to the DOA.

## Auditee's Response

*The DSS agrees with the recommendation. In prior years, the ACFR Accounts Payable (AP) procedures in place took a significant amount of staff time to complete. Therefore, the DSS did change the procedures starting with the state fiscal year (SFY) 2022 reporting. The updated procedures were designed to align with those of other state departments with the overall goal to improve efficiencies within the Accounts Payable Unit. This change, in return, allowed for enhanced processes in other areas of the unit.*



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*Upon feedback from the State Auditor's Office, the DSS did further refine the procedures for the SFY 2022 reporting. With the refined procedures, the DSS did submit revised ACFR AP reports to the Division of Accounting.*

*Effective January 9, 2023, the DSS Accounts Payable staff started including the service dates and/or received dates on the Line Description field of the payment in preparation of the completion of the SFY 2023 ACFR. Effective February 2023, the DSS has updated the written ACFR AP procedures to document the changes made.*

**FS2022-005.**  
**Department of Natural Resources**  
**Financial Reporting**  
**Controls**

The Department of Natural Resources (DNR) does not have adequate controls and procedures over financial reporting of loans receivable. As a result, the loans receivable balance submitted to the Office of Administration - Division of Accounting (DOA) for inclusion in the State of Missouri Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022, was misstated. If the misstatement had not been identified during the audit, the Government Wide - Governmental Activities and Conservation and Environmental Protection Fund loans receivable balance would have been overstated by approximately \$27.5 million in the ACFR.

To compile and submit loans receivable data to the DOA, DNR accounting personnel obtain and compile loans receivable information from State Revolving Fund reports and the statewide accounting (SAM II) system. For the year ended June 30, 2022, DNR accounting personnel incorrectly included certain future loan principal repayments twice. As a result, the loans receivable balance reported to the DOA was overstated by approximately \$27.5 million. This error was not detected during the supervisory review of the loans receivable financial report provided to the DOA. The error was identified during our audit after DOA and State Auditor's Office personnel requested the DNR explain a large variance between the reported June 30, 2022, loans receivable balance and prior year's balance. DNR accounting personnel subsequently submitted a corrected loans receivable financial report to the DOA.

DNR officials stated the error occurred without detection due to human error and a significant increase in workload. DNR officials indicated they have taken steps to minimize the risk of future misstatements, including additional procedures to verify reporting accuracy and analyze identified variances prior to the submission of loans receivable financial 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



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

**Recommendation**

The DNR ensure established and newly implemented controls and procedures over loans receivable financial reporting are operating as designed.

**Auditee's Response**

*Department management agrees with the recommendation. In the future, we will ensure duplicate entries are not included in the information compiled from the State Revolving Fund System Reports and that the totals reconcile to the SAM II system prior to submission of the loans receivable ACFR survey to the DOA.*

**FS2022-006.  
 Office of Secretary of State  
 Financial Reporting  
 Controls**

The Office of Secretary of State (SOS) does not have adequate controls and procedures over financial reporting of accounts receivable. As a result, civil penalty accounts receivable data submitted to the Office of Administration - Division of Accounting (DOA) for inclusion in the State of Missouri Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022, was misstated. If the resulting misstatements had not been identified during the audit, Government Wide - Governmental Activities and Public Education Fund net accounts receivable and related liability balances would have been overstated by at least \$9.7 million in the ACFR.

The SOS has not established procedures to analyze and estimate civil penalty uncollectible amounts for financial reporting purposes. Each year, the SOS reports \$0 uncollectible, although the SOS historically collects only a small portion of the balance. For the year ended June 30, 2022, the SOS reported civil penalty gross accounts receivable of \$19.4 million, \$0 uncollectible, and net accounts receivable of \$19.4 million, although annual collections only averaged \$9,000 during the last 5 fiscal years. The table below shows civil penalty accounts receivable balances reported to the DOA as well as actual collections during the 5 fiscal years ended June 30, 2022.

Fiscal Year	Amounts Reported to the DOA:			Actual Collections
	Gross Accounts Receivable	Uncollectible Amount	Net Accounts Receivable	
2018	\$ 5,993,779	0	5,993,779	\$ 11,149
2019	7,012,992	0	7,012,992	13,588
2020	7,275,371	0	7,275,371	19,121
2021	13,604,734	0	13,604,734	637
2022	19,414,209	0	19,414,209	525
<b>Total</b>				<b>\$ 45,020</b>

Paragraph 21 of the Governmental Accounting Standards Board (GASB) Statement No. 33, requires recognition of receivables and revenues net of estimated uncollectible amounts. SOS personnel indicated they do not





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estimate and report uncollectible amounts to the DOA because they do not intend to write off any amounts due. However, this approach is not in accordance with accounting standards for financial reporting, does not consider the likelihood of collection, and overstates the value of accounts receivable and related liability balances in the ACFR. Furthermore, estimating uncollectible amounts for financial reporting purposes is independent of any actual write offs of amounts due.

Because uncollectible amounts were not estimated and reported, the net accounts receivable and related liability balances reported to the DOA were overstated for the year ended June 30, 2022. After we identified and discussed the issue with SOS and DOA personnel, DOA personnel estimated a civil penalties uncollectible amount of \$9.7 million (50 percent of gross accounts receivable), calculated corrected net accounts receivable and related liability balances of \$9.7 million, and corrected the Government Wide - Governmental Activities and Public Education Fund opinion units of the ACFR prior to its completion. Therefore, the net accounts receivable and related liability balances reported to the DOA by the SOS were overstated by at least \$9.7 million.

It is essential the SOS establish 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 SOS implement controls and procedures to prepare and submit accurate accounts receivable reports to the DOA.

## Auditee's Response

*The agency does not agree with the audit finding and corrective action is not required. Explanation and specific reasons are as follows:*

*The SOS reported to the DOA an accurate amount of fines and penalties owed and will not misrepresent what is owed to aggrieved Missourians. The State Auditor's Office notes the estimation of uncollectibles is for financial reporting purposes only. As the ACFR is a product of the DOA, the SOS does not control how the financial report is presented. The SOS disagrees with the selective reading of the GASB Statement No. 33. Each year the SOS is required to report the amount of civil penalties listed as receivables to the DOA for inclusion in the ACFR. These amounts are owed by violators of securities laws enforced by the SOS Securities Division. All receivables*



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*related to said violators are valid penalties until paid for by the bad actors who committed the violations.*

## Auditor's Comment

The language of Paragraph 21 of GASB Statement No. 33 clearly requires the SOS to recognize receivables net of estimated uncollectible amounts. Not doing so results in an accounts receivable balance that would overstate the net position of the Government Wide - Governmental Activities and Public Education Fund opinion units in the ACFR. Acknowledging that a portion of the receivables in question is unlikely to be collected and estimating an uncollectible amount does not reduce or eliminate the amounts owed; rather, such estimation is necessary to ensure the net position of the related opinion units is accurately stated in accordance with GASB guidance.

### **FS2022-007. Department of Labor and Industrial Relations Financial Reporting Controls**

The Department of Labor and Industrial Relations (DOLIR) does not have adequate controls and procedures over financial reporting of Unemployment Compensation Fund (UCF) financial activities. As a result, some balances submitted to the Office of Administration - Division of Accounting (DOA) for inclusion in the State of Missouri Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022, were misstated. In addition, the financial reports were not submitted timely to the DOA.

DOLIR staff extract and use various information from the UInteract system to prepare UCF trial balances. The DOLIR is to submit the trial balances, along with other financial information, to the DOA by August 15 each year. Our review of the UCF trial balance and supporting documentation for the year ended June 30, 2022, noted the following errors and delays:

- The net position balance was overstated by approximately \$8 million. This misstatement occurred because the DOLIR incorrectly restated the June 30, 2021, (prior year) net position balance.

After our inquiries, DOLIR personnel submitted a revised UCF trial balance to the DOA, and the DOA made the necessary corrections prior to completing the ACFR. If the misstatement had not been identified during the audit, the Government Wide - Business-Type Activities and UCF ending net position balance would have been overstated by approximately \$8 million.

- The DOLIR incorrectly recorded accounts receivable totaling approximately \$2.5 million as accounts payable. This amount represents excess transfers of penalties from the UCF to the Special Employment Security Fund that needed to be refunded back to the UCF fund. This error caused accounts payable to be overstated and accounts receivable to be understated by approximately \$2.5 million, in the trial balance. Because the misstatements were not material to the affected opinion units, the DOA made no corrections to the ACFR.



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- The DOLIR submitted the UCF trial balance to the DOA significantly past the due date of August 15, 2022. The DOLIR submitted a preliminary trial balance on October 31, 2022, and revised final trial balances on November 9, 22, and 30, 2022. The delayed submission of the trial balance and other financial records negatively impacted the completion of both the ACFR and the ACFR audit.

DOLIR supervisory reviews did not detect the errors noted above. DOLIR personnel indicated the errors and delays occurred due to staff turnover and they are currently implementing additional monthly reviews to help identify and correct issues timely.

It is essential the DOLIR strengthen controls and procedures to prepare and submit accurate and timely UCF financial 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 DOLIR strengthen controls and procedures to prepare and submit accurate and timely UCF financial reports to the DOA.

## Auditee's Response

*The DOLIR agrees with the finding and has corrected the net position misstatement. The misstatement is related to increased volume of COVID-19 pandemic unemployment programs, when the department was processing an unprecedented amount of benefits and time did not allow for adequate review and corrections. The DOLIR is working with the Office of Administration Information Technology Services Division to generate financial data queries to compare UInteract monthly and yearly reports, which will allow the DOLIR to review and correct discrepancies sooner and will prevent future delays and allow for timely reporting.*

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### **FS2022-008. Office of Administration Financial Reporting Controls - Fund Balance Classifications**

The Office of Administration - Division of Accounting (DOA) does not have adequate controls and procedures over classification of ending fund balances. If a fund balance classification error had not been corrected, the Government Wide - Governmental Activities and General Fund restricted fund balance would have been overstated, and the unassigned fund balance would have been understated, by approximately \$1.4 billion in the State of Missouri Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022.

The DOA classifies fund balances as nonspendable, restricted, committed, assigned, or unassigned. Restricted fund balances are amounts that are



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restricted for a specific purpose due to constraints that are externally imposed by creditors, grantors, contributors, laws and regulations of other governments, or laws through constitutional provisions or enabling legislation. Unassigned fund balances are amounts that do not meet the criteria for nonspendable, restricted, committed, or assigned.

Each year, the DOA performs a fund analysis that determines the classification for various funds. The fund balance classifications are then updated in the statewide accounting (SAM II) system, if necessary. If the analysis is completed after the SAM II system has been closed for the fiscal year, the DOA must manually update the fund balance classifications in the ACFR working papers and trial balances so that the fund balance classifications are accurately stated in the ACFR.

For the year ended June 30, 2022, DOA personnel did not update a trial balance for the results of the fund balance classification analysis for 4 funds within the General Fund. Each of these funds was initially classified in the SAM II system as a restricted fund. In the analysis performed in September 2022, after the SAM II system was closed for fiscal year 2022, the funds were determined to be classified as unassigned funds. Because DOA personnel did not update the classifications in the trial balances, the fund balances for these 4 funds were incorrectly classified in the draft ACFR. This resulted in an overstatement of the restricted fund balance and an understatement of the unassigned fund balance by approximately \$1.4 billion, in the draft Government Wide - Governmental Activities and General Fund. This error was not identified in the DOA's initial supervisory review of the draft ACFR. After we brought the classification error to the DOA's attention, DOA personnel made corrections to the trial balances prior to completing the ACFR.

The State Auditor's Office (SAO) performs the annual ACFR audit concurrently with the DOA's completion of the ACFR. The ACFR is normally published no later than late January each year; however, the ACFR for the year ended June 30, 2022, was not published until March 24, 2023. We normally communicate significant errors to the DOA after DOA personnel have performed their final supervisory review of the ACFR. However, in an effort to prevent further delays and minimize inefficiencies, we informed the DOA of the fund balance classification error after DOA personnel had performed their initial, but not final, supervisory review. We brought the error to the DOA's attention on January 31, 2023, after DOA supervisory personnel had provided the draft General Fund trial balances to auditors (January 13, 2023) and uploaded the draft ACFR to the Electronic Municipal Market Access (EMMA®) service (January 24, 2023). DOA personnel's final supervisory review of the ACFR was completed on March 6, 2023.



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It is essential the DOA strengthen controls and procedures for classifying ending fund balances in the ACFR. 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 DOA strengthen controls and procedures to ensure proper classification of ending fund balances in the ACFR.

## Auditee's Response

*While the DOA agrees that there was an error in the draft document, the DOA disagrees with the SAO's finding that the DOA has inadequate internal controls because the DOA was not allowed to complete its internal audit process.*

## Auditor's Comment

DOA personnel provided auditors the draft ACFR and many supporting working papers significantly later than in previous years. As noted in the finding, we brought the error to the DOA's attention after their initial supervisory review had been performed and the DOA had uploaded the draft ACFR to the EMMA® service. At that time, we estimated the ACFR would be issued no sooner than early March 2023. Therefore, we communicated the error to the DOA at that time, rather than waiting several weeks and risking further delay of the ACFR issuance. Had the DOA completed and reviewed the items more timely, and caught and corrected this error, the SAO would not have issued a finding.

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### **FS2022-009. Office of Administration SAM II Transaction Approvals**

As noted in our Statewide Accounting System Internal Controls audit,<sup>4</sup> Office of Administration (OA) management has not fully corrected a weakness in the Statewide Advantage for Missouri (SAM II) Financial system security settings that allows users to create a transaction and then apply approval to the same transaction without review or additional approval from another party.

Each user account in the SAM II Financial system is assigned certain rights and privileges from a list of available options, including the authority to create and approve transactions. The OA is also able to assign rules to transactions to specify approvals necessary based on dollar value and transaction type. If a user is allowed rights to both create and approve a transaction, and these rights satisfy the rules established for the transaction, the user would be able

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<sup>4</sup> See Management Advisory Report finding number 1.2 in Report No. 2023-001, *Statewide Accounting System Internal Controls*, issued in February 2023.



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to create and approve the same transaction without review or additional approval from an independent party. While OA management has taken steps to limit this risk, we identified 2 SAM II Financial system user accounts had authority to enter and approve the same expenditure transaction as of April 2022.

OA management indicated the authority for both users to enter and approve transactions was unintended. Such authority began when the OA enabled (and ended when the OA later disabled) statewide system access for both users. Such access was intended to temporarily support the state's processing and oversight of Coronavirus Relief Fund transactions. However, while enabled, this access, combined with the users' pre-existing rights, provided the users the authority to enter and approve transactions. We confirmed that neither user had both entered and approved any transactions inappropriately during their respective 2 and 9 month period with such authority.

Allowing users to approve their own transactions without another approval increases the risk that inappropriate or unauthorized transactions may be processed.

## Recommendation

The OA continue to eliminate the risk of users approving transactions they create and establish policies to ensure future users are not granted this ability.

## Auditee's Response

*OA will continue providing oversight of user accounts.*