



# 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, 2023

Report No. 2024-036

May 2024

[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

Office of Administration Financial Reporting Controls - ACFR Preparation	<p>The Office of Administration (OA) - Division of Accounting (DOA) does not have adequate controls and procedures over preparation of the State of Missouri Annual Comprehensive Financial Report (ACFR). If various errors had not been corrected, the Notes to the Financial Statements (Notes) and the Required Supplementary Information (RSI) would have been materially misstated in the ACFR for the year ended June 30, 2023. The audit found the contributions to retirement systems were overstated by more than \$718 billion in the Notes and an amount included in the RSI - General Fund was understated by more than \$2.9 billion. The misstatements, which resulted from data entry and transposition errors as well as a failure to update amounts when revised source data was received, were not identified in the DOA's supervisory review of the draft ACFR.</p>
Department of Revenue Financial Reporting Controls	<p>As has been similarly noted in two previous audits, the Department of Revenue (DOR) does not have adequate controls and procedures over financial reporting of certain governmental and custodial fund activities. As a result, numerous balances submitted to the DOA for inclusion in the ACFR for the year ended June 30, 2023, were materially misstated. In addition, the financial reports were not submitted timely to the DOA.</p> <p>For withholding income tax and sales and use tax refund liability balances (accounts payable), the DOR reported actual individual income tax refund expenditures of approximately \$1.2 billion and corporate income tax refund expenditures of approximately \$215.1 million, when they should have reported withholding income tax and sales and use tax refund liability balances of approximately \$129.3 million and \$194.6 million, respectively.</p> <p>The DOR did not follow current methodology to determine net sales and use tax accounts receivable balances. If these errors had not been identified during the audit, Government Wide - Governmental Activities, General Fund, Public Education Fund, and Sales and Use Tax Non-State Fund (custodial fund) net accounts receivable balances would have been overstated by approximately \$265 million, \$191.7 million, \$73.3 million, and \$313.8 million, respectively, in the ACFR.</p> <p>Multiple data entry and calculation errors were identified in the custodial fund balances and financial activities for the Motor Fuel Tax and Bonds Non-State Fund, the Sales and Use Tax Non-State Fund, the Motor Vehicle Clearing Non-State Fund, and the Family Support Trust Non-State Fund. Errors included using prior year amounts or amounts that did not match supporting documentation, and inaccurate summary total and allocation calculations. If these errors had not been identified during the audit, certain Custodial Funds - Program assets and activity would have been understated in the ACFR by approximately \$240.3 million and \$2.05 billion, respectively.</p>
Department of Social Services Financial Reporting Controls	<p>The Department of Social Services - Division of Finance and Administrative Services does not have adequate controls and procedures over financial</p>

reporting of federal grant accounts receivable. As a result, the accounts receivable data submitted to the DOA for inclusion in the ACFR for the year ended June 30, 2023, was misstated. If the misstatements had not been identified during the audit, Government Wide - Governmental Activities and General Fund net accounts receivable would have been overstated by approximately \$7.2 million, deferred inflows of resources would have been overstated by approximately \$59.4 million, and revenues would have been understated by approximately \$52.2 million in the ACFR.

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Office of Secretary of State  
Financial Reporting Controls

As similarly noted in our prior audit, the Office of Secretary of State did 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, 2023, 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 approximately \$11.2 million in the ACFR.

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Office of Administration SAM  
II Transaction Approvals

As similarly noted in our previous 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. Allowing users to approve their own transactions without another approval increases the risk that inappropriate or unauthorized transactions may be processed.

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. 2024-023<sup>1</sup>) of the State of Missouri's Annual Comprehensive Financial Report (ACFR), as of and for the year ended June 30, 2023, on March 18, 2024. To avoid the appearance of a conflict of interest, the State Auditor recused himself from participation in the audit of the significant accounts at the State Treasurer's Office because he served as State Treasurer through January 9, 2023. For those significant accounts, the Audit Director oversaw procedures performed by the State Auditor's professional audit staff.

The State of Missouri's fiscal year 2023 financial statements covered approximately \$63 billion in total assets and approximately \$38 billion in total expenses for the primary government. 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 5 findings related to internal control deficiencies at 3 state agencies and 1 office. We consider 2 of these findings to be material weaknesses and 3 to be significant deficiencies. Of the 5 findings, 3 were repeated from prior audits. These findings have been reported in the 1 to 2 prior years.

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 office 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 State of Missouri's Annual Comprehensive Financial Report (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 (*Government Auditing Standards*), 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, 2023, 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 18, 2024. 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 activities 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 58 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 13 percent of the assets and 80 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 91 percent of the assets and 21 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*. 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.

Our consideration of internal control was for the limited purpose described in the preceding 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as finding numbers FS2023-001 and FS2023-002 to be material weaknesses.

*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 deficiencies described in the accompanying Schedule of Findings and Responses as finding numbers FS2023-003 through FS2023-005 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.



Scott Fitzpatrick  
State Auditor

March 18, 2024



# State of Missouri - Annual Comprehensive Financial Report

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

### Schedule of Findings and Responses

**FS2023-001.**  
**Office of Administration**  
**Financial Reporting**  
**Controls - ACFR**  
**Preparation**

The Office of Administration - Division of Accounting (DOA) does not have adequate controls and procedures over preparation of the State of Missouri Annual Comprehensive Financial Report (ACFR). If various errors had not been corrected, the Notes to the Financial Statements (Notes) and the Required Supplementary Information (RSI) would have been materially misstated in the ACFR for the year ended June 30, 2023.

The DOA prepares the ACFR by compiling information obtained from various sources, including the Statewide Advantage for Missouri (SAM II) Financial system, state agency surveys and reports, and component unit audited financial statements. The table below shows the misstatements identified in the Notes and RSI during the audit:

ACFR Section - page number	Overstatement	Understatement	Net
Note 7 - Retirement Systems, Contributions - p. 75	\$ 718,366,914,000 <sup>1</sup>	0	718,366,914,000
RSI - General Fund, Original Budgeted Revenues, Total Resources - p. 140	0	(2,929,815,000)	(2,929,815,000)
Note 3 - Deposits and Investments, Fiduciary Funds			
Total Investments Measured at Net Asset Value <sup>2</sup> - p. 56	392,147,000	(392,147,000)	0
Total Investments Measured at Fair Value - p. 56	0	(156,734,000)	(156,734,000)
Note 17 - Restatements, Breakdown by Type - p. 116			
Unemployment Compensation, Due To Other Funds	3,182,000	0	3,182,000
Unemployment Compensation, Due From Other Funds	0	(3,182,000)	(3,182,000)

<sup>1</sup>Combined overstatements for MSEP, Judicial Plan, MPERS, and MSEP-Component Units

<sup>2</sup>Combined overstatement of Private Real Estate Funds and understatement of Private Equity and Timber Funds

These misstatements, which resulted from data entry and transposition errors as well as a failure to update amounts when revised source data was received, were not identified in the DOA's supervisory review of the draft ACFR. After we brought the errors to the DOA's attention, DOA personnel made corrections to the Notes and the RSI prior to completing the ACFR.

It is essential the DOA strengthen controls and procedures for preparation of 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 disclosure of information in the Notes to the Financial Statements and the Required Supplementary Information in the ACFR.



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## Auditee's Response

*The DOA acknowledges errors occurred during the preparation of the fiscal year 2023 ACFR. Our ACFR preparation processes are extremely manual and have risk of errors as a result, especially when revisions are submitted. It is expected our new accounting system will reduce the manual processes and increase accuracy. The DOA is also updating ACFR tie out procedures to make them more understandable and usable. This will reduce the time it takes to complete the review of the ACFR as well as allow for more reviews to be performed on each section of the ACFR. We are also investigating opportunities to leverage technology to reduce errors.*

### **FS2023-002. Department of Revenue Financial Reporting Controls**

As similarly noted in our 2 previous audits,<sup>2</sup> 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, numerous 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, 2023, were materially misstated. In addition, the financial reports were not submitted timely to the DOA.

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 numerous misstatements that were not identified by the DOR internal control system, including the following.

- Withholding income tax<sup>3</sup> and sales and use tax refund liability balances (accounts payable) were incorrectly reported. The DOR reported actual individual income tax refund expenditures of approximately \$1.2 billion and corporate income tax refund expenditures of approximately \$215.1 million, when they should have reported withholding income tax and sales and use tax refund liability balances of approximately \$129.3 million and \$194.6 million, respectively. These errors were identified during our audit after DOA and State Auditor's Office (SAO) personnel noted a large variance between the reported withholding income tax refund liability balance and the prior year balance. If these errors had not

<sup>2</sup>See State of Missouri Annual Comprehensive Financial Report - Report on Internal Control, Compliance, and Other Matters at <https://auditor.mo.gov/AuditReport/Reports?SearchLocalState=3>, finding numbers FS2022-001 and FS2021-001.

<sup>3</sup>For withholding income tax accounts payable, our audit work was limited to matching the amount reported to DOR summary reports. We were not allowed access to tax returns and related source documents for income taxes.



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been identified during the audit, Government Wide - Governmental Activities and General Fund accounts payable balances would have been overstated by approximately \$1.1 billion in the ACFR.

- The DOR did not follow current methodology to determine net sales and use tax accounts receivable balances. If these errors had not been identified during the audit, Government Wide - Governmental Activities, General Fund, Public Education Fund, and Sales and Use Tax Non-State Fund (custodial fund<sup>4</sup>) net accounts receivable balances would have been overstated by approximately \$265 million, \$191.7 million, \$73.3 million, and \$313.8 million, respectively, in the ACFR.
- Multiple data entry and calculation errors were identified in the custodial fund balances and financial activities for the Motor Fuel Tax and Bonds Non-State Fund, the Sales and Use Tax Non-State Fund, the Motor Vehicle Clearing Non-State Fund, and the Family Support Trust Non-State Fund. Errors included using prior year amounts or amounts that did not match supporting documentation, and inaccurate summary total and allocation calculations. 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		
	Overstatement	(Understatement)	Net
Assets	\$ 0	(240,345,000)	(240,345,000)
Additions	\$ 32,206,000	(1,136,204,000)	(1,103,998,000)
Deductions	\$ 0	(950,205,000)	(950,250,000)

- The DOR submitted the financial reports for the custodial fund financial activities to the DOA significantly past the DOA due date of August 15, 2023. The initial financial reports were submitted on October 26, 2023. Due to the errors identified, multiple revised financial reports were submitted in November and December 2023, and January 2024. The delayed submission of accurate financial reports negatively impacted the completion of both the ACFR and the ACFR audit.

After we identified the errors noted above 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.

In response to our previous findings, the DOR established a two-step review process for all financial reports submitted to the DOA and the SAO. However,

<sup>4</sup>Custodial funds are included in the Aggregate Remaining Fund Information opinion unit.



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DOR officials indicated the newly implemented review process did not detect the errors noted above due to continued significant turnover in Administration Division personnel.

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

## Auditee's Response

*The DOR understands the auditor's finding and is strengthening our two-step review process of financial reporting. 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.*

### **FS2023-003. 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, the 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, 2023, was misstated. If the misstatements had not been identified during the audit, Government Wide - Governmental Activities and General Fund net accounts receivable would have been overstated by approximately \$7.2 million, deferred inflows of resources would have been overstated by approximately \$59.4 million, and revenues would have been understated by approximately \$52.2 million in the ACFR.

To compile and submit accounts receivable data to the DOA, DFAS personnel extract and analyze drawdown information from federal cash drawdown reports. Of the net accounts receivable at June 30, the DFAS is to identify collections "expected in July and August" and collections "expected after August." The DOA reports collections "expected in July and August" as revenues and collections "expected after August" as deferred inflows of resources. The Governmental Accounting Standards Board (GASB) *Codification*, Section 1600.106, states revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. The *Governmental Accounting, Auditing, and Financial*



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*Reporting*, Chapter 9, further states resources should be recognized as revenues when they are available, even if they were not actually collected during the availability period.

The DFAS has not established procedures to accurately report June 30 net accounts receivable amounts and to classify amounts as expected (available) in July and August (reported as revenues in the ACFR) versus after August (reported as deferred inflows in the ACFR). For the year ended June 30, 2023, the DFAS reported net accounts receivable totaling approximately \$59.4 million; however, federal cash drawdown reports supported net accounts receivable totaling approximately \$52.2 million, an overstatement of approximately \$7.2 million. In addition, the DFAS reported \$0 collections "expected in July and August," and approximately \$59.4 million collections "expected after August," although the entire balance was available at June 30, 2023. Supervisory reviews did not detect these errors. After our inquiries, DFAS personnel subsequently submitted corrected accounts receivable reports to the DOA.

DFAS personnel stated some errors occurred because the DFAS inadvertently sent an unapproved initial draft version of the accounts receivable report to the DOA. DFAS personnel stated other errors occurred due to a change in personnel responsible for the reporting and a misinterpretation of ACFR reporting instructions.

It is essential the DFAS 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 DSS through the DFAS strengthen controls and procedures to prepare and submit accurate federal grant accounts receivable reports to the DOA.

## Auditee's Response

*The department agrees with the State Auditor's Office's recommendation to strengthen controls and procedures regarding accounts receivable financial reporting. It is important to note that there are 26 surveys requested of the department each year as part of the financial reporting process. The Corrective Action Plan includes the department's planned action to address this finding.*

*DFAS staff are documenting the accounts receivable financial reporting processes in order to enhance current procedures for submitting accurate*



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*accounts receivable reports to the DOA. Additionally, to strengthen controls, DFAS staff will document the overall process for submitting department financial reports to the DOA. DFAS staff plan to implement the written procedures during completion of the state fiscal year 2024 financial reports.*

**FS2023-004.**  
**Office of Secretary of State**  
**Financial Reporting**  
**Controls**

As similarly noted in our prior audit,<sup>5</sup> the Office of Secretary of State (SOS) did 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, 2023, 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 approximately \$11.2 million in the ACFR.

The SOS had 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. Paragraph 21 of the Governmental Accounting Standards Board (GASB) Statement No. 33, requires recognition of receivables and revenues net of estimated uncollectible amounts.

For the year ended June 30, 2023, the SOS initially reported civil penalty gross accounts receivable of \$19.5 million, \$0 uncollectible, and net accounts receivable of \$19.5 million. SOS personnel indicated they did not estimate and report uncollectible amounts to the DOA because they did 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 by approximately \$11.2 million, for the year ended June 30, 2023. After we identified and discussed the issue with SOS personnel, the SOS established and implemented controls and procedures over accounts receivable. The SOS estimated a civil penalties uncollectible amount of \$11.2

<sup>5</sup> See State of Missouri Annual Comprehensive Financial Report - Report on Internal Control, Compliance, and Other Matters, Year Ended June 30, 2022 at <<https://auditor.mo.gov/AuditReport/ViewReport?report=2023022>>, finding number FS2022-006.



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million, calculated corrected net accounts receivable and related liability balances of \$8.3 million, and submitted a revised accounts receivable financial report to the DOA.

Controls and procedures over accounts receivable are necessary to ensure accounts receivable reports submitted to the DOA are accurate. 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 continue to implement newly established controls and procedures to prepare and submit accurate accounts receivable reports to the DOA.

## Auditee's Response

*The SOS has established and implemented a process with a methodology to present logical assumptions based on historical information and probability to provide estimated civil penalty uncollectible amounts for financial reporting purposes and for future reporting to the DOA and the State Auditor's Office (SAO). The SOS will re-evaluate annually and provide timely estimates to the OA and the SAO for future ACFR reports.*

### **FS2023-005. Office of Administration SAM II Transaction Approvals**

As similarly noted in our previous audit,<sup>6</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.

To request user rights in the SAM II Financial system, state agency SAM II Security Administrators complete and submit SAM II Financial Agency Security Request forms to the OA. The OA SAM II Security Administrator reviews the request forms and enables the rights in the SAM II Financial system. Each user account is assigned certain rights and privileges from a list of available options, including the authority to create and approve transactions. Rules can be assigned to transactions to specify approvals necessary based on the dollar value and transaction type. If a user is allowed rights to both create and approve a transaction, and those rights satisfy the rules established for the transaction, the user would be able to create and

<sup>6</sup> See State of Missouri Annual Comprehensive Financial Report - Report on Internal Control, Compliance, and Other Matters, Year Ended June 30, 2022, at <<https://auditor.mo.gov/AuditReport/ViewReport?report=2023022>>, finding number FS2022-009.



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approve the same transaction without review or additional approval from an independent party. While OA management has taken steps to limit this risk, in our review of SAM II Financial system user account access as of May 31, 2023, for all agencies with accounts significant to the ACFR, we identified a Department of Health and Senior Services (DHSS) user had authority to enter and approve the same expenditure transaction.

The authority for the user to enter and approve expenditure transactions was established in November 2022 when the OA SAM II Security Administrator inadvertently gave the user both data entry and approval rights, although the DHSS had requested only approval rights. The user had these rights until July 2023, when the DHSS removed the user's access due to inactivity. We confirmed the user did not both enter and approve any transactions during her 8 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

*As mentioned in the audit finding, ". . . OA management has taken steps to limit this risk . . ." Only 1 SAM II Financial User from another agency was noted in the finding, and this individual did not both enter and approve any transactions during the period she had this authority. Periodic reviews will be performed, and OA will continue to provide oversight of user accounts. We are currently implementing MOVERS to replace the existing ERP system, which will reduce if not eliminate conflicts with security access.*