



SCOTT FITZPATRICK MISSOURI STATE AUDITOR

Honorable Michael L. Parson, Governor
and
Members of the General Assembly
and
Wayne Wallingford, Director
Department of Revenue
Jefferson City, Missouri

We completed audit work at the Department of Revenue (DOR) as part of our annual statewide audit of the State of Missouri's financial statements for the fiscal year ended June 30, 2023. We issued audit reports (Report Nos. 2024-023 and 2024-036) of the state's Annual Comprehensive Financial Report, in March and May 2024.¹ The purpose of this letter is to summarize, and communicate to stakeholders, the audit work performed at the DOR during the audit and the audit results.

Statewide Financial Statement Audit and Methodology

We conducted the annual financial statement audit 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 statement audit includes, among other things, expressing an opinion on whether the state's financial statements are fairly presented, in all material respects. The Office of Administration (OA) prepared the Annual Comprehensive Financial Report (financial statements) from various sources including the statewide accounting (SAM II) system and survey data received from state agencies and offices. The state's financial statements covered \$63 billion in total assets and \$38 billion in total expenses for fiscal year 2023. To satisfy our audit objectives, we evaluated and identified the accounts significant to each opinion unit within the state's financial statements and performed various audit procedures, including reviews of internal controls for each of those accounts. For fiscal year 2023, our financial statement audit included work at the OA and 13 other state agencies and offices.

Financial Statement Audit Work at the DOR

For the DOR, we audited financial activities and balances totaling \$41.9 billion for the following significant accounts:

General Revenue Fund:

- \$14.5 billion in revenue activity
- \$1.7 billion in expenditure activity
- an accounts receivable balance (and related deferred inflows of resources) of \$3.1 billion
- an accounts payable balance of \$368 million

¹ Audit reports are available at: <<https://auditor.mo.gov/AuditReport/Menu>>.

Motor Fuel Tax Fund:

- \$905 million in revenue activity
- \$252 million in expenditure activity

Gaming Proceeds for Education Fund:

- \$362 million in revenue activity

School District Trust Fund:

- \$1.2 billion in revenue activity
- an accounts receivable balance (and related deferred inflows of resources) of \$186 million

Conservation Commission Fund:

- \$160 million in revenue activity

Parks Sales Tax Fund:

- \$64 million in revenue activity

Soil and Water Sales Tax Fund:

- \$64 million in revenue activity

DOR Custodial Funds:

- asset balances of \$1.6 billion
- \$8.8 billion in revenue activity
- \$8.6 billion in expenditure activity

Audit Results and Findings at the DOR

Our responsibility for the statewide financial statement audit is limited to the previously stated objectives. The audit reports of the state's financial statements reported no uncorrected material misstatements for the DOR. We 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 at the DOR.

We are required by the audit standards to report as audit findings certain significant or material conditions such as weaknesses in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; and/or fraud.

We reported an audit finding related to the DOR's internal controls over financial reporting.

- Department of Revenue Financial Reporting Controls (Finding No. FS2023-002) - As similarly noted in our 2 previous audits, the DOR did not have adequate controls and procedures over financial reporting of certain governmental and custodial fund financial activities. As a result, numerous balances submitted for inclusion in the financial statements for the year ended June 30, 2023, were materially misstated. Withholding income tax and sales and use tax refund liability balances (accounts payable) were incorrectly reported. If these errors had not 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 financial statements. In addition, 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 financial statements. Auditors also identified multiple data entry and calculation errors that resulted in both the overstatement and understatement of various custodial fund balances and financial activities in the financial statements. If these errors had not been identified during the audit, certain Custodial Funds - Program assets and activities would have been understated in the financial statements by approximately \$240.3 million and \$2.05 billion, respectively. In addition, the financial reports were not submitted timely. The DOR's delayed submission of accurate financial reports negatively impacted the completion of both the financial statements and the financial statements audit.

The audit finding and the DOR's response are included in our Annual Comprehensive Financial Report - Report on Internal Control, Compliance, and Other Matters (Report No. 2024-036) and the DOR's Corrective Action Plan is included in the Single Audit Report (Report No. 2024-063).

A handwritten signature in black ink that reads "Scott Fitzpatrick". The signature is written in a cursive, flowing style.

Scott Fitzpatrick
State Auditor