



Scott Fitzpatrick

Missouri State Auditor

State of Missouri
Annual Comprehensive Financial Report
Report on Internal Control, Compliance, and Other Matters
Year Ended June 30, 2024

Report No. 2025-030

May 2025

auditor.mo.gov



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CITIZENS SUMMARY

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

Department of Revenue Financial Reporting Controls

As has been similarly noted in three 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 Office of Administration - Division of Accounting (DOA) for inclusion in the ACFR for the year ended June 30, 2024, were materially misstated.

The DOR did not follow current methodology to determine net sales and use tax accounts receivable balances. Certain lapsed period collections were excluded when calculating accounts receivable balances. If this error had not been identified during the audit, Sales and Use Tax Non-State Fund (a custodial fund) net accounts receivable balances would have been understated by approximately \$60.9 million in the ACFR.

The DOR did not include pass-through entity taxes when determining income tax accounts receivable balances. If this error had not been identified during the audit, Government Wide - Governmental Activities and General Fund net accounts receivable balances would have been understated by approximately \$36.2 million in the ACFR. A revised report submitted to the DOA to address this error contained calculation errors, and resulted in net accounts receivable and related liability balances being understated by approximately \$26.7 million.

The DOR made several data entry and calculation errors 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, and the Family Support Trust Non-State Fund. Some amounts did not match supporting documentation and some balances were not properly updated following revisions to source documentation. 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 \$166 million and \$1.2 billion, respectively.

The DOR submitted revised reports to the DOA to correct these misstatements prior to completing the ACFR.

Medicaid and CHIP Receipt Controls

As previously noted in the State of Missouri Single Audit report for the year ended June 30, 2023, the Department of Social Services (DSS) - MO HealthNet Division (MHD) does not have adequate controls to ensure proper management of receipts. The MHD does not adequately restrict user access within the Medicaid Management Information System and does not account for all cash control numbers to ensure all checks and money orders are properly deposited or returned to senders if the payment cannot be accepted. During the year ended June 30, 2024, the MHD processed receipts totaling approximately \$1.5 billion.

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

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Report on Internal Control, Compliance, and Other Matters

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Introduction

Summary of Financial Statement Audit Results

In fulfillment of our duties under Section 29.200.10, RSMo, we issued our audit report (Report No. 2025-016¹) of the State of Missouri's Annual Comprehensive Financial Report (ACFR), as of and for the year ended June 30, 2024, on April 2, 2025.

The State of Missouri's fiscal year 2024 financial statements covered approximately \$66 billion in total assets and approximately \$40 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 2 findings related to internal control deficiencies at 2 state agencies. We consider both findings to be material weaknesses. Both findings were repeated from prior audits with 1 of the findings reported in the 3 prior years.

The state agencies' responses to the findings are included in this report. The agencies prepared a Corrective Action Plan (CAP) for each finding. The CAPs were submitted to the Office of Administration (OA) and will be included in the Corrective Action Plans section of the State of Missouri - Single Audit report, to be issued later.

State agencies and an 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.

¹ 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 Mike Kehoe, 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, 2024, 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 April 2, 2025. 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 24 percent of governmental activities revenues and 27 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 58 percent of the assets and 10 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 11 percent of the assets and 81 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 26 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 and the Missouri Consolidated Health Care Plan (MCHCP), 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 Missouri Department of Transportation and Highway Patrol Employees' Retirement System and the MCHCP State Retiree Welfare Benefit Trust, 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. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as finding numbers FS2024-001 and FS2024-002, that we consider to be material weaknesses.

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

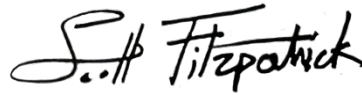
disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

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

Scott Fitzpatrick
State Auditor

April 2, 2025

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Schedule of Findings and Responses

FS2024-001.

Department of Revenue

Financial Reporting

Controls

As similarly noted in our 3 previous audits,² 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, several 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, 2024, were materially 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 several misstatements that were not identified by the DOR internal control system, including the following.

- The DOR did not follow current methodology to determine net sales and use tax accounts receivable balances. Certain lapsed period collections were excluded when calculating accounts receivable balances. If this error had not been identified during the audit, Sales and Use Tax Non-State Fund (a custodial fund³) net accounts receivable balances would have been understated by approximately \$60.9 million in the ACFR.
- The DOR did not include pass-through entity taxes when determining income tax accounts receivable balances. If this error had not been identified during the audit, Government Wide - Governmental Activities and General Fund net accounts receivable balances would have been understated by approximately \$36.2 million in the ACFR. Additionally, a revised report submitted to the DOA to address this error contained calculation errors, and resulted in net accounts receivable and related liability balances being understated by approximately \$26.7 million.
- The DOR made several data entry and calculation errors 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, and the Family Support Trust Non-State Fund. Some amounts did not match supporting documentation and some balances were not properly updated following revisions to source documentation. If these errors had not been identified

² 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 FS2023-002, FS2022-001, and FS2021-001.

³ Custodial funds are included in the Aggregate Remaining Fund Information opinion unit.



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during the audit, certain Custodial Funds - Program balances would have been misstated in the ACFR as noted in the following table.

Account Type	Custodial Funds - Program		
	Overstatement	(Understatement)	Net
Assets	\$ 0	(166,436,000)	(166,436,000)
Additions	12,106,000	(690,596,000)	(678,490,000)
Deductions	0	(536,267,000)	(536,267,000)

After we identified these errors and discussed them with DOR personnel, the Administration Division submitted revised reports to the DOA. Except for the \$26.7 million error noted in the second bullet point, the DOA made the corrections prior to completing the ACFR. Since the \$26.7 million error did not result in a material misstatement to the affected opinion units, no revisions were made by the DOA.

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, 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 Department of Revenue understands the auditor's finding and is strengthening our two-step review process of financial reporting. Our Corrective Action Plan includes our planned actions to address the finding.



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FS2024-002.
Medicaid and CHIP
Receipt Controls

As previously noted in our State of Missouri Single Audit report for the year ended June 30, 2023,⁴ the Department of Social Services (DSS) - MO HealthNet Division (MHD) does not have adequate controls to ensure proper management of receipts. The MHD does not adequately restrict user access within the Medicaid Management Information System (MMIS)⁵ and does not account for all cash control numbers to ensure all checks and money orders are properly deposited or returned to senders if the payment cannot be accepted.

During the year ended June 30, 2024, the MHD Financial Operations and Reporting Unit (FORU) processed Medicaid and Children's Health Insurance Program (CHIP) receipts totaling approximately \$1.5 billion. These receipts included checks and money orders received from participants, providers, and insurance companies for items such as premiums, reimbursements, and taxes.

FORU staff receive checks and money orders, post the receipts to the receipt module of the MMIS, and prepare deposit transmittals. MHD program staff apply the receipts to the applicable accounts in the accounts receivable module in the MMIS. Of the approximately \$1.5 billion received, about \$300,000 (.02 percent) was received through a contracted bank lockbox, and then posted to the Automated Health System (AHS)⁶ by contractor employees.

MMIS user access

The MHD does not adequately restrict user access within the receipts and accounts receivable modules in the MMIS. The FORU Senior Accountant and Accountant can access checks and money orders, record receipts and change receipt records in the MMIS, update or close the related accounts receivable in the MMIS, apply the restrictive endorsement to checks, and prepare deposit transmittals. MHD officials indicated these two employees need full access to the MMIS in case of employee absences or turnover. In response to our single audit finding, in August 2024, the MHD implemented some documented supervisory reviews of entries and changes made in the MMIS by employees whose duties are not segregated. However, not adequately reviewing all activities of these employees increases the risks of misappropriation and undetected errors.

Segregating the duties of handling and recording receipts from the duties of modifying accounts receivable records is necessary to ensure transactions are handled properly. If proper segregation of duties cannot be achieved, it is

⁴ See single audit report at <<https://auditor.mo.gov/AuditReport/ViewReport?report=2024063>>, finding number 2023-004.

⁵ The MMIS is accessed through a web portal called eMMIS.

⁶ The system is also called HealthTrack.



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essential to document thorough independent or supervisory reviews of MMIS entries and changes made by employees whose duties are not segregated.

Cash control numbers

The MHD's reconciliations of receipts, deposits, and checks and money orders on hand are not sufficient to account for all cash control numbers to ensure all checks and money orders received are properly deposited or returned to senders.

The MMIS and the AHS assign receipt numbers, also called cash control numbers, when receipts are scanned and posted in the systems. MHD staff reconcile receipts listed on deposit transmittals to system-generated deposit reports daily, and reconcile open transaction reports to checks and money orders in the MHD's safes weekly. However, neither of these reconciliations account for the sequence of all cash control numbers. MHD officials indicated there are instances in which the systems skip a cash control number due to a system error when a receipt is being recorded. In response to our single audit finding, in August 2024, the MHD implemented procedures to account for the sequence of cash control numbers. However, these procedures cover some, but not all, types of receipts.

During a count of undeposited items and a review of related receipt records on November 5, 2024, auditors noted numerous omitted cash control numbers. Failure to properly account for cash control numbers increases the risk of misappropriation.

Conclusions

Strong internal controls are necessary to ensure Medicaid and CHIP receipts are accounted for properly. Regulation 45 CFR Section 75.303(a) requires the non-federal entity to "[e]stablish and maintain effective internal controls over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States or the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission." Paragraphs 10.03 and 10.12 of the *Standards for Internal Control in the Federal Government*, also known as the Green Book, provide that management should establish physical controls to periodically compare vulnerable assets to control records; secure and safeguard vulnerable assets; and consider segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, design alternative control activities to address the risk.



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Recommendation

The DSS through the MHD continue to review, strengthen, and enforce internal controls over Medicaid and CHIP receipts. The MHD should restrict user access within the MMIS for FORU accounting personnel and adequately segregate asset custody and receipt recording duties from accounts receivable duties, or perform documented supervisory reviews of MMIS entries and changes made by employees whose duties are not segregated. In addition, the MHD should establish procedures to account for all cash control numbers to ensure all receipts are deposited or returned to senders.

Auditee's Response

MHD has implemented a process to document supervisory reviews of the Finance Manual Checks Quarterly report to ensure segregation of duties in HealthTrack/AHS. This process began in August 2024. As a result of clarification on the finding during the FY24 audit, additional information has been added to the Finance Manual Check Quarterly report to include transactions the FORU Manager performed in the AHS system. This change was requested beginning in March 2025 and will be in use as soon as the report is available for review. MHD will continue to perform the audit of clerk ID ad hoc reports to review any segregation of duties within the MMIS.

MHD implemented a process to ensure all cash control numbers in HealthTrack/AHS are accounted for by establishing a new cash control number (CCN) sequence, exclusive to manual checks logged within the FORU. This resolved the issue of cash control numbers for participant checks occurring out of sequence due to AHS running files in the background at the same time checks are being logged. This portion of the implementation occurred in August 2024. During the FY24 audit, MHD received further clarification and is implementing a review of a monthly report containing missing and unused cash control numbers for provider checks in eMMIS. This will be compared to a file updated by the Accounts Assistant with the daily cash control numbers used. FORU will use the monthly report to document reasons for any unused or skipped CCNs. This process is being completed monthly beginning March 2025.