Office of Missouri State Auditor

Nicole Galloway, CPA

State of Missouri
Single Audit
Year Ended June 30, 2017

Report No. 2018-016

March 2018

auditor.mo.gov

Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the Fiscal Year 2017 Statewide Single Audit

Background	A single audit requires an audit of the state's financial statements and expenditures of federal awards. The state spent over $12 billion in federal awards through 301 different federal programs during the fiscal year ended June 30, 2017. Our Single Audit involved audit work on 11 major federal programs administered by 8 state agencies, with expenditures totaling approximately $7.8 billion. The audit reported 3 financial statement findings and 14 federal award findings, and related recommendations. The federal award findings related to 4 major federal programs at 3 state agencies. Of these audit findings, 8 have been repeated from prior Single Audits for 1 to 7 years. Several of these findings are summarized below.
Unemployment Compensation Fund - Financial Reporting and Benefit Payment Account Controls	The Department of Labor and Industrial Relations (DLIR) does not have adequate controls and procedures over financial reporting of Unemployment Compensation Fund (UCF) financial activities following the implementation of the computerized Unemployment Insurance (UI) system, UInteract, in November 2016. The DLIR implemented the UInteract system without fully developing and testing financial reports needed to manage and report UCF activities. Due to various UInteract system implementation and financial reporting problems, net accounts receivable information submitted by the DLIR to the Office of Administration - Division of Accounting for inclusion in the state's financial statements was understated for the year ended June 30, 2017. The audit identified actual understatements of net accounts receivable balances totaling $781,763 and additional potential misstatements related to accounts receivable, cash, and/or disbursement balances. The DLIR did not reconcile the benefit payment bank account until over 1 year after system implementation.
Unemployment Compensation Fund - Segregation of Duties	The DLIR did not adequately segregate the duties of administering UI benefits and authorizing transactions from the benefit payment bank account.
Unemployment Compensation Fund - Transfers	The DLIR did not establish procedures to transfer interest and penalty collections to the Special Employment Security Fund (SESF) as required by state law. As of June 30, 2017, the DLIR had not transferred approximately $3.4 million held in the Unemployment Compensation Fund to the SESF.
Unemployment Insurance Federal Reporting	The DLIR has not established adequate controls and procedures to prepare and submit accurate, complete, and timely federal reports for the UI program. Our review identified several federal financial reports that were not accurate and/or were not submitted within required timeframes.
Unemployment Insurance Wage Cross-matches	The DLIR - Division of Employment Security (DES) did not follow established controls over UI program eligibility and payments related to wage cross-matches, and as a result, federally-required wage cross-matches were not performed during the 9-month period after implementation of the new UInteract computerized system.
Unemployment Insurance Benefit Accuracy Measurement Program	The DES did not comply with UI program Benefit Accuracy Measurement (BAM) case investigation requirements. The DES did not complete BAM case investigations within the required timeframes and did not perform federally-required wage cross-matches during BAM paid claim case

investigations performed during the period October 2016 to July 2017. The DES has not established written policies and procedures regarding supervisory reviews of BAM case investigations.

Unemployment Insurance Maximum Benefit Amount

The DES did not properly design and implement internal controls to ensure the new computerized UInteract system correctly calculates claimant Maximum Benefit Amounts (MBA). As a result, claimants were paid a total of $134,388 in excess of the actual MBAs allowed by law.

Child Care Eligibility and Payments

Child Care Eligibility and Payments

As noted in the prior seven audit reports, weaknesses continue to exist in Department of Social Services (DSS) controls over Child Care and Development Fund (Child Care) subsidy eligibility and provider payments. Documentation was not adequate to support payments for 13 of 60 (20 percent) cases reviewed. Approximately 5.6 percent of payments reviewed were questioned.

Child Care Provider Monitoring

As noted in the prior audit report, the DSS's procedures to follow up on provider noncompliance identified during Child Care Review Team reviews are not sufficient.

Child Care Provider Eligibility

As noted in our prior four audit reports, the DSS does not have adequate controls and procedures in place to ensure "four-or-less" (FOL) child care providers participating in the Child Care subsidy program comply with statutory requirements for license-exempt status. Under state law, child care providers are exempt from licensing requirements if they care for four or less unrelated children. For some FOL providers reviewed, the DSS made Child Care subsidy payments to the providers without obtaining the required documentation to support the relationships to children in their care. We identified one instance in which the DSS paid a FOL provider $1,524 for caring for 7 children without verifying the children-provider relationships.

MO HealthNet Division Provider Eligibility

As noted in our prior audit report, the DSS did not fully implement federal revalidation requirements for providers participating in the Medical Assistance Program (Medicaid) and the Children's Health Insurance Program (CHIP). As of June 30, 2017, the DSS had not performed required revalidations for 71 percent of Medicaid and CHIP providers requiring revalidation. The federal share of payments to the 43 providers we sampled for which revalidations were not performed totaled over $223 million during state fiscal year 2017.

Medicaid Developmental Disabilities - Comprehensive Waiver Per Diem Rates

As noted in our prior two audit reports, the Department of Mental Health - Division of Developmental Disabilities (DD) did not retain documentation to support the per diem rates paid to some providers for residential habilitation services provided to participants of the Home and Community Based Services, Developmental Disabilities Comprehensive Waiver program. The DD did not retain documentation to support per diem rates, paid at historical rates, for 7 of the 34 individualized supported living habilitation service payments tested. The federal share of payments to providers for habilitation services provided to these participants totaled $416,966 during state fiscal year 2017.

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

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Summary Schedule of Prior Audit Findings

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Common Abbreviations

CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CSR	Code of State Regulations
OMB	Office of Management and Budget
RSMo	Missouri Revised Statutes
SAM II	Statewide Advantage for Missouri
USC	United States Code

Introduction

The United States Congress passed the Single Audit Act Amendments of 1996 to establish uniform requirements for audits of federal awards administered by states, local governments, and non-profit organizations. The Office of Management and Budget (OMB) issued Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) to set forth uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements. The Uniform Guidance replaced OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is effective for single audits of fiscal years beginning on or after December 26, 2014.

A single audit requires an audit of the state's financial statements and expenditures of federal awards. The audit is required to determine whether:

- The state's basic financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles.
- The schedule of expenditures of federal awards is stated fairly in all material respects in relation to the financial statements as a whole.
- The state has adequate internal controls to ensure compliance with federal award requirements.
- The state has complied with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each of its major federal programs.
- The summary schedule of prior audit findings prepared by the state materially represents the status of the prior audit findings.

The Single Audit report includes the federal awards expended by all state agencies that are part of the primary government. The report does not include the public universities and other component units which are legally separate from the state. These component units are responsible for engaging other auditors to perform their single audits. The state expended over $12 billion in federal awards during the state fiscal year ended June 30, 2017.

Summary of Single Audit Results

The following is the summary of our Single Audit results for the fiscal year ended June 30, 2017.

Financial Statements

We issued our audit report (Report No. 2018-002[1]) of the state's Comprehensive Annual Financial Report (CAFR), as of and for the year ended June 30, 2017, on January 25, 2018. 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.

We reported two findings related to internal control deficiencies and one finding related to noncompliance at the Department of Labor and Industrial Relations (DLIR). We consider one of the internal control deficiencies to be a material weakness and the other to be a significant deficiency. The DLIR's responses to the findings are included in this report. The DLIR prepared a Corrective Action Plan for each finding. The Corrective Action Plans were submitted to the Office of Administration (OA) and are available by contacting the OA.

Federal Awards

We issued our report on the accompanying Schedule of Expenditures of Federal Awards. Our report expressed the opinion that the schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We audited 11 major federal programs with expenditures totaling approximately $7.8 billion, administered by 8 state agencies.

We issued a qualified opinion on 4 major federal programs and an unmodified opinion on 7 major federal programs. A qualified opinion is issued when the audit of a major federal program detects material noncompliance with direct and material compliance requirements. A qualified opinion was issued on the following major programs, administered by the DLIR, the Department of Social Services (DSS), and the Department of Mental Health (DMH):

Unemployment Insurance - DLIR
Child Care and Development Fund (CCDF) Cluster - DSS
Children's Health Insurance Program - DSS
Medicaid Cluster - DSS and DMH

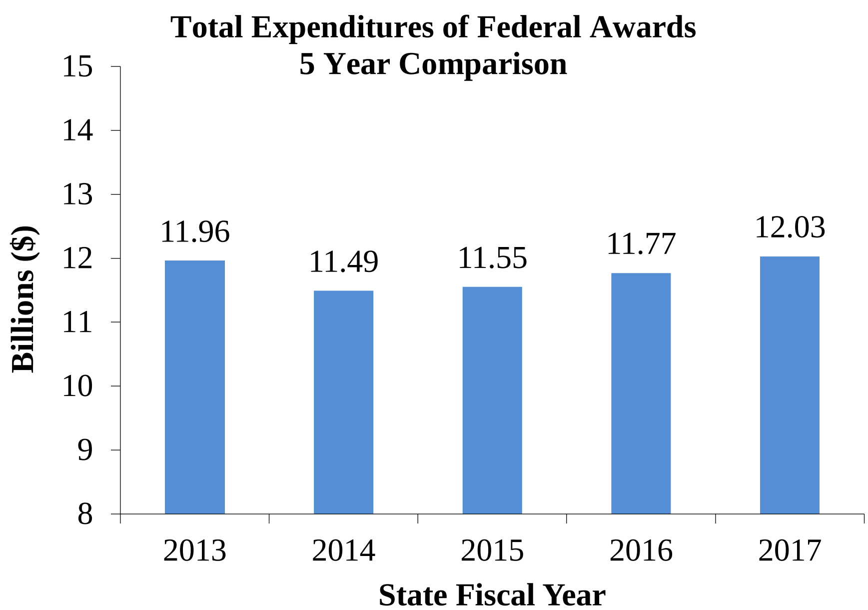
In total, we reported 14 audit findings related to 4 major federal programs at 3 state agencies. Of these audit findings, 8 were repeated from prior Single Audits. These findings have been repeated for 1 to 7 years.

[1] Available on the Missouri State Auditor's Office website: <http://auditor.mo.gov>.

Of the 14 audit findings, 13 related to internal control deficiencies. We consider 6 findings of internal control deficiencies to be material weaknesses and 7 to be significant deficiencies.

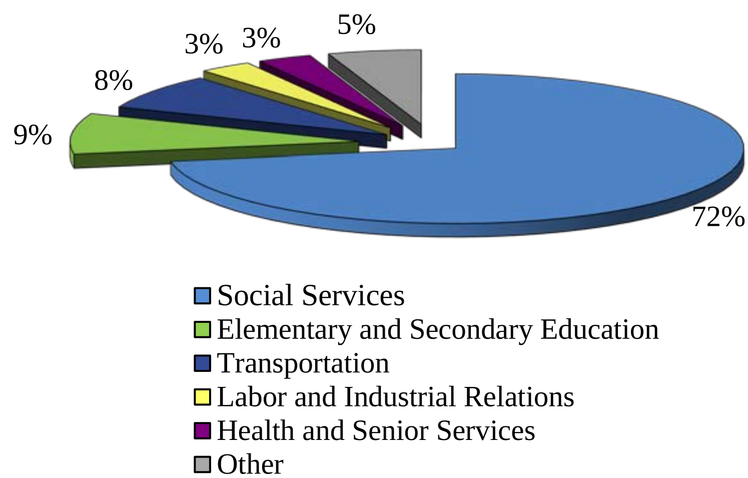
The state agencies' responses to the audit findings are included in this report. The state agencies prepared a Corrective Action Plan for each audit finding. The Corrective Action Plans were submitted to the OA and are available by contacting the OA.

In addition, the state agencies prepared and submitted to the OA the accompanying Summary Schedule of Prior Audit Findings.



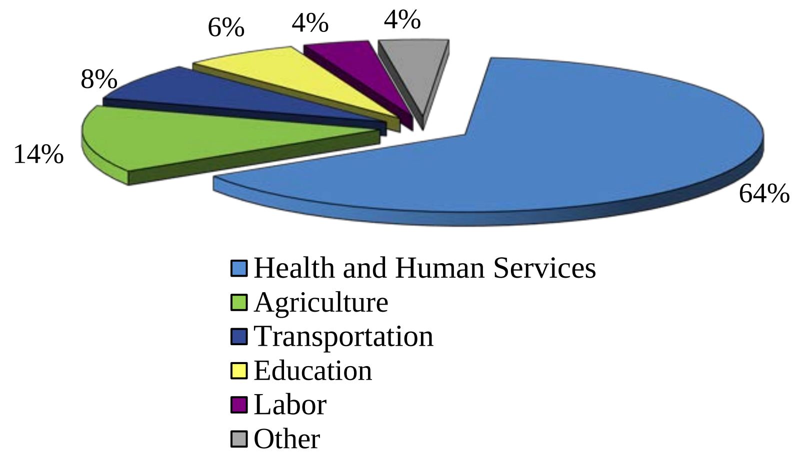
Of the 19 state agencies and other state offices that expended federal awards, 5 state agencies spent the majority of the awards (95 percent) during state fiscal year 2017.

Expenditures of Federal Awards by State Agency



The state expended federal awards received from 24 different federal agencies. Most of the federal award expenditures (96 percent) were from programs of 5 federal agencies.

Expenditures of Federal Awards by Federal Agency

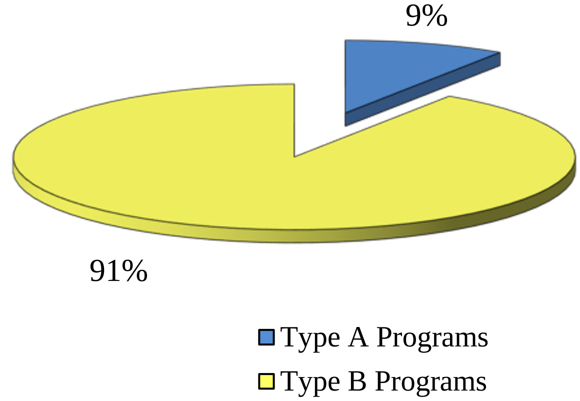


Overall, the state expended federal awards in 301 different programs. These programs are listed in the accompanying Schedule of Expenditures of Federal Awards.

The Uniform Guidance requires federal programs to be identified as Type A programs or Type B programs based on a dollar threshold. For the state of Missouri, the Uniform Guidance defines the dollar threshold as $30 million since the federal award expenditures exceeded $10 billion, but were less than or equal to $20 billion.

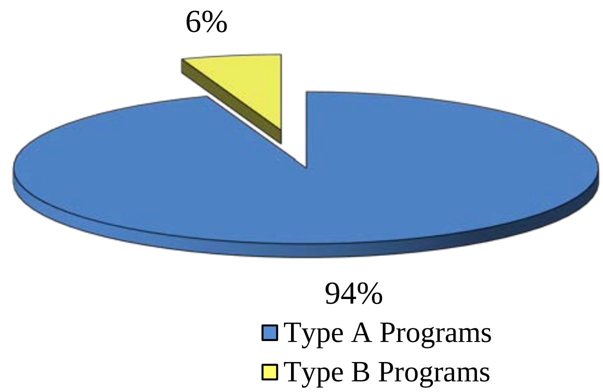
Programs with federal award expenditures over $30 million are Type A programs and programs with federal award expenditures under $30 million are Type B programs. Of the 301 federal programs, 28 were Type A programs and 273 were Type B programs.

Type A and Type B Programs
Number of Programs



The 28 Type A programs had expenditures totaling $11.4 billion, or 94 percent of total expenditures. The 273 Type B programs had expenditures totaling $664 million, or 6 percent of total expenditures.

Type A and Type B Programs
Expenditures of Federal Awards



The Uniform Guidance requires the auditor to perform risk assessments on the Type A programs and to audit as major each Type A program assessed as high risk based on specified risk factors. We performed a risk assessment on each Type A program and determined 18 of the 28 Type A programs were low risk and did not need to be audited as major. In accordance with the Uniform Guidance, we audited as major the 10 Type A programs assessed as high risk.

The Uniform Guidance also requires the auditor to perform risk assessments on larger Type B programs to determine which are high risk and need to be audited as major. The dollar threshold to determine the larger Type B programs is 25 percent of the Type A threshold, or $7.5 million. We performed risk assessments on the 23 larger Type B programs and determined 1 program was high risk. In accordance with the Uniform Guidance, we audited the program as major.

The programs audited as major are listed in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. We audited 65 percent of total state fiscal year 2017 federal expenditures.

Major and Non-major Federal Programs

Type of Programs	**Number of Programs**		**Expenditures**	**Percentage of Expenditures**
Programs Audited				
Type A major programs	10	$	7,824,327,255	
Type B major programs	1		13,347,511	
Total major programs	11		7,837,674,766	65%
Programs not Audited				
Type A non-major programs	18		3,543,323,466	
Type B non-major programs	272		650,600,705	
Total non-major programs	290		4,193,924,171	35%
Total programs	301	$	12,031,598,937	100%

Correspondence with State Agencies

The various issues associated with the new UInteract computerized system at the Department of Labor and Industrial Relations (as discussed in finding number 2017-001) led to delays in completing the Comprehensive Annual Financial Report (CAFR) audit. See appendix A for a copy of the letter to the Office of Administration regarding these delays.

In addition, the Department of Natural Resources (DNR) did not timely submit certain required acknowledgments and representations to us for the CAFR audit and the Single Audit. See Appendixes B-1 and B-2 for copies of the letters sent to the DNR regarding these delays. The DNR subsequently submitted these items on February 16, 2018 and March 20, 2018.

State of Missouri
Summary of Type A Programs and Total Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Program or Cluster Name	Federal Grantor Agency	Federal Awards Expended
	SNAP Cluster:		
10.551	Supplemental Nutrition Assistance Program	Agriculture	$ 1,119,417,055
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture	47,490,689
	Total SNAP Cluster		1,166,907,744
	Child Nutrition Cluster:		
10.553	School Breakfast Program	Agriculture	84,064,323
10.555	National School Lunch Program	Agriculture	245,344,099
10.556	Special Milk Program for Children	Agriculture	445,277
10.559	Summer Food Service Program for Children	Agriculture	14,709,863
	Total Child Nutrition Cluster		344,563,562
10.557	WIC Special Supplemental Nutrition Program for Woman, Infants, and Children	Agriculture	81,280,532
10.558	Child and Adult Care Food Program	Agriculture	54,619,303
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Defense	32,681,395
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Housing and Urban Development	31,507,094
17.225	Unemployment Insurance	Labor	351,364,706
	WIOA Cluster:		
17.258	WIOA Adult Program	Labor	13,997,488
17.259	WIOA Youth Activities	Labor	15,273,559
17.278	WIOA Dislocated Workers Formula Grants	Labor	14,708,431
	Total WIOA Cluster		43,979,478
	Highway Planning and Construction Cluster:		
20.205	Highway Planning and Construction	Transportation	841,010,247
20.219	Recreational Trails Program	Transportation	2,285,287
20.224	Federal Lands Access Program	Transportation	3,740,607
	Total Highway Planning and Construction Cluster		847,036,141
64.015	Veterans State Nursing Home Care	Veterans Affairs	72,597,884
	Clean Water State Revolving Fund Cluster:		
66.458	Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency	41,357,922
	Total Clean Water State Revolving Fund Cluster		41,357,922
84.010	Title I Grants to Local Educational Agencies	Education	245,273,300
	Special Education Cluster (IDEA):		
84.027	Special Education Grants to States	Education	227,827,502
84.173	Special Education Preschool Grants	Education	5,791,746
	Total Special Education Cluster (IDEA)		233,619,248
84.032	Federal Family Education Loans	Education	79,408,383
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Education	68,765,253
84.367	Supporting Effective Instruction State Grant	Education	40,603,216
93.268	Immunization Cooperative Agreements	Health and Human Services	69,605,697
	TANF Cluster:		
93.558	Temporary Assistance for Needy Families	Health and Human Services	221,310,804
	Total TANF Cluster		221,310,804
93.563	Child Support Enforcement	Health and Human Services	40,425,975
93.568	Low-Income Home Energy Assistance	Health and Human Services	65,026,314
	CCDF Cluster:		
93.575	Child Care and Development Block Grant	Health and Human Services	69,459,217
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services	56,058,248
	Total CCDF Cluster		125,517,465
93.658	Foster Care - Title IV-E	Health and Human Services	73,451,073
93.659	Adoption Assistance	Health and Human Services	37,360,692
93.667	Social Services Block Grant	Health and Human Services	51,533,528
93.767	Children's Health Insurance Program	Health and Human Services	211,395,352

State of Missouri
Summary of Type A Programs and Total Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Program or Cluster Name	Federal Grantor Agency	Federal Awards Expended
	Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	Health and Human Services	1,819,540
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	Health and Human Services	19,304,502
93.778	Medical Assistance Program	Health and Human Services	6,620,982,171
	Total Medicaid Cluster		6,642,106,213
	Disability Insurance/SSI Cluster:		
96.001	Social Security Disability Insurance	Social Security Administration	44,857,503
	Total Disability Insurance/SSI Cluster		44,857,503
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security	49,494,944
	Total Type A Programs (expenditures greater than $30,000,000)		11,367,650,721
	Total Type B Programs (expenditures less than $30,000,000)		663,948,216
	Total Expenditures of Federal Awards		$ 12,031,598,937

NICOLE GALLOWAY, CPA
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Eric R. Greitens, 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, 2017, and the related notes to the financial statements, which collectively comprise the state's basic financial statements, and have issued our report thereon dated January 25, 2018. 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 28 percent of governmental activity revenues and 33 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 also 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 77 percent of the assets and 11 percent of the revenues of the governmental activities.

2. The State Lottery and the Petroleum Storage Tank Insurance Fund which are both major funds and represent 14 percent of the assets and 69 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 agency funds which represent 93 percent of the assets and 97 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 and the Missouri Agricultural and Small Business Development Authority, discretely presented component units; and the pension (and other employee benefit) trust funds were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state's internal control. Accordingly, we do not express an opinion on the effectiveness of the state's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, 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's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as finding 2017-001 to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as finding 2017-002 to be a significant deficiency.

Compliance and Other Matters

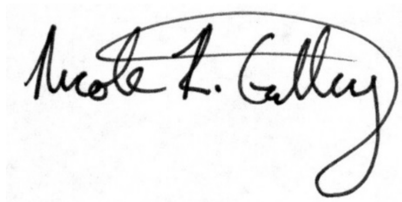
As part of obtaining reasonable assurance about whether the state of Missouri's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as finding number 2017-003.

State's Responses to Findings

The state of Missouri's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and the Corrective Action Plan. The state's responses were not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Section 29.200, RSMo, this report is a matter of public record and its distribution is not limited.



Nicole R. Galloway, CPA
State Auditor

January 25, 2018

NICOLE GALLOWAY, CPA
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Eric R. Greitens, Governor
and
Members of the General Assembly

Report on Compliance for Each Major Federal Program

We have audited the state of Missouri's compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the state's major federal programs for the year ended June 30, 2017. The state of Missouri's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

The state of Missouri's basic financial statements include the operations of the public universities and other component units whose expenditures of federal awards are not included in the state's Schedule of Expenditures of Federal Awards during the year ended June 30, 2017. Our audit, described below, did not include the operations of these component units because they were responsible for engaging other auditors to perform audits in accordance with the Uniform Guidance, if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the state of Missouri's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the state's compliance.

Basis for Qualified Opinion on Certain Major Federal Programs

As described in the findings listed in the table below and in the accompanying Schedule of Findings and Questioned Costs, the state of Missouri did not comply with requirements regarding the following:

Finding Number	CFDA Number(s)	Program (or Cluster) Name	Compliance Requirement(s)
2017-004	17.225	Unemployment Insurance	Reporting
2017-010	93.575 93.596	Child Care and Development Fund (CCDF) Cluster	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
2017-013	93.767 93.775 93.777 93.778	Children's Health Insurance Program and Medicaid Cluster	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Missouri to comply with the requirements applicable to these programs.

Qualified Opinion on Certain Major Federal Programs

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, the state of Missouri complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Unemployment Insurance program, the Child Care and Development Fund (CCDF) Cluster, the Children's Health Insurance Program, and the Medicaid Cluster for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the state of Missouri complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 2017-006 through 2017-008, 2017-012, 2017-015, and 2017-017. Our opinion on each major federal program is not modified with respect to these matters.

The state of Missouri's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and the Corrective Action Plan prepared for each finding by the applicable agency. The state's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the state of Missouri is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the state's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the state's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 2017-004, 2017-005, 2017-010, and 2017-012 through 2017-014 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 2017-006 through 2017-009, 2017-011, 2017-015, and 2017-016 to be significant deficiencies.

The state of Missouri's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and the Corrective Action Plan. The state's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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.

Nicole R. Galloway, CPA
State Auditor

March 14, 2018

NICOLE GALLOWAY, CPA
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

Honorable Eric R. Greitens, 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, 2017, and the related notes to the financial statements, which collectively comprise the state's basic financial statements, and have issued our report thereon dated January 25, 2018. 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 28 percent of governmental activity revenues and 33 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 also 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 77 percent of the assets and 11 percent of the revenues of the governmental activities.

2. The State Lottery and the Petroleum Storage Tank Insurance Fund which are both major funds and represent 14 percent of the assets and 69 percent of the revenues of the business-type activities.

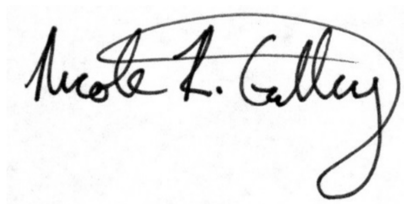
3. The aggregate discretely presented component units.

4. The pension (and other employee benefit) trust funds and the Missouri Department of Transportation agency funds which represent 93 percent of the assets and 97 percent of the additions of the fiduciary funds.

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 and the Missouri Agricultural and Small Business Development Authority, discretely presented component units; and the pension (and other employee benefit) trust funds were not audited in accordance with *Government Auditing Standards.*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of Missouri's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements. As described in Note 1 to the Schedule of Expenditures of Federal Awards, the accompanying Schedule of Expenditures of Federal Awards does not include the public universities and other component units. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the audit procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The purpose of this report is solely to provide an opinion on the Schedule of Expenditures of Federal Awards in relation to the basic financial statements as a whole based on the requirements of the Uniform Guidance. Accordingly, this report 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.



Nicole R. Galloway, CPA
State Auditor

January 25, 2018

State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Federal Grantor Agency - Program or Cluster Name	Federal Awards Expended	Amount Provided to Subrecipients
Department of Agriculture			
10.U01	School Lunch Commodity Refund	$ 6,675	6,675
10.025	Plant and Animal Disease, Pest Control, and Animal Care	738,239	0
10.028	Wildlife Services	26,511	0
10.069	Conservation Reserve Program	392,678	0
10.117	Biofuel Infrastructure Partnership	488,702	488,702
10.153	Market News	10,573	0
10.163	Market Protection and Promotion	38,306	0
10.170	Specialty Crop Block Grant Program - Farm Bill	266,928	243,799
10.171	Organic Certification Cost Share Programs	82,620	0
10.435	State Mediation Grants	14,932	0
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	1,035,034	0
10.479	Food Safety Cooperative Agreements	256,226	0
10.547	Professional Standards for School Nutrition Employees	6,783	0
	SNAP Cluster:		
10.551	Supplemental Nutrition Assistance Program	1,119,417,055	0
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	47,490,689	11,597,025
	Total SNAP Cluster	1,166,907,744	11,597,025
	Child Nutrition Cluster:		
10.553	School Breakfast Program	84,064,323	84,064,323
10.555	National School Lunch Program	245,344,099	245,344,099
10.556	Special Milk Program for Children	445,277	445,277
10.559	Summer Food Service Program for Children	14,709,863	14,099,875
	Total Child Nutrition Cluster	344,563,562	343,953,574
10.557	WIC Special Supplemental Nutrition Program for Woman, Infants, and Children	81,280,532	24,594,781
10.558	Child and Adult Care Food Program	54,619,303	53,990,698
10.560	State Administrative Expenses for Child Nutrition	5,047,906	2,082,785
	Food Distribution Cluster:		
10.565	Commodity Supplemental Food Program	5,745,171	1,467,889
10.568	Emergency Food Assistance Program (Administrative Costs)	1,531,549	1,477,905
10.569	Emergency Food Assistance Program (Food Commodities)	12,153,187	0
	Total Food Distribution Cluster	19,429,907	2,945,794
10.574	Team Nutrition Grants	333,410	59,739
10.578	WIC Grants to States (WGS)	1,594,971	0
10.579	Child Nutrition Discretionary Grants Limited Availability	1,304,877	984,079
10.582	Fresh Fruit and Vegetable Program	3,641,894	3,641,894
10.664	Cooperative Forestry Assistance	1,427,465	251,039
	Forest Service Schools and Roads Cluster:		
10.665	Schools and Roads - Grants to States	2,756,490	2,756,490
	Total Forest Service Schools and Roads Cluster	2,756,490	2,756,490
10.680	Forest Health Protection	11,120	0
10.902	Soil and Water Conservation	328,170	299,163
10.932	Regional Conservation Partnership Program	1,144,843	1,138,184
Total Department of Agriculture		1,687,756,401	449,034,421
Department of Commerce			
11.555	Public Safety Interoperable Communications Grant Program	367,276	0
Total Department of Commerce		367,276	0
Department of Defense			
12.U01	Excess Property Program	550,646	0
12.U02	Troops to Teachers	86,715	0

State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Federal Grantor Agency - Program or Cluster Name	Federal Awards Expended	Amount Provided to Subrecipients
12.112	Payments to States in Lieu of Real Estate Taxes	39,714	39,714
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	755,427	0
12.401	National Guard Military Operations and Maintenance (O&M) Projects	32,681,395	0
12.620	Troops to Teachers Grant Program	67	0
	Total Department of Defense	34,113,964	39,714
Department of Housing and Urban Development			
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	31,507,094	30,616,843
14.231	Emergency Solutions Grants Program	2,515,778	2,514,277
14.238	Shelter Plus Care	348,511	348,511
14.241	Housing Opportunities for Persons with AIDS	165,363	165,363
14.267	Continuum of Care Program	12,021,436	12,013,072
14.401	Fair Housing Assistance Program - State and Local	472,442	0
14.416	Education and Outreach Initiatives	25,318	0
	Total Department of Housing and Urban Development	47,055,942	45,658,066
Department of the Interior			
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	148,583	0
15.252	Abandoned Mine Land Reclamation (AMLR)	2,705,648	0
	Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration Program	8,098,374	0
15.611	Wildlife Restoration and Basic Hunter Education	12,973,187	0
	Total Fish and Wildlife Cluster	21,071,561	0
15.608	Fish and Wildlife Management Assistance	462,436	0
15.615	Cooperative Endangered Species Conservation Fund	119,356	0
15.623	North American Wetlands Conservation Fund	183,071	0
15.634	State Wildlife Grants	991,510	0
15.657	Endangered Species Conservation - Recovery Implementation Funds	14,059	0
15.808	U.S. Geological Survey - Research and Data Collection	45,374	0
15.810	National Cooperative Geologic Mapping	150,727	0
15.814	National Geological and Geophysical Data Preservation	41,546	0
15.819	Energy Cooperatives to Support the National Coal Resources Data System	15,516	0
15.904	Historic Preservation Fund Grants-In-Aid	1,041,219	173,582
15.916	Outdoor Recreation - Acquisition, Development and Planning	601,269	245,676
15.978	Upper Mississippi River System Long Term Resource Monitoring	385,783	0
15.980	National Ground-Water Monitoring Network	22,562	0
	Total Department of the Interior	28,000,220	419,258
Department of Justice			
16.U01	Violent Offender Task Force	4,990	0
16.U02	FBI Joint Terrorism Task Force	46,381	0
16.017	Sexual Assault Services Formula Program	258,378	252,766
16.523	Juvenile Accountability Block Grants	102,222	92,742
16.540	Juvenile Justice and Delinquency Prevention	450,036	210,108
16.554	National Criminal History Improvement Program (NCHIP)	1,036,253	940,042
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	296,949	79,705
16.575	Crime Victim Assistance	15,677,681	15,261,216
16.576	Crime Victim Compensation	2,571,033	2,492,601
16.585	Drug Court Discretionary Grant Program	373,776	0
16.588	Violence Against Women Formula Grants	2,220,509	2,076,042
16.593	Residential Substance Abuse Treatment for State Prisoners	302,026	68,627
16.606	State Criminal Alien Assistance Program	338,274	0
16.710	Public Safety Partnership and Community Policing Grants	258,810	0
16.734	Special Data Collections and Statistical Studies	160,466	0

State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Federal Grantor Agency - Program or Cluster Name	Federal Awards Expended	Amount Provided to Subrecipients
16.738	Edward Byrne Memorial Justice Assistance Grant Program	3,837,215	3,262,203
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	17,117	0
16.741	DNA Backlog Reduction Program	421,230	0
16.751	Edward Byrne Memorial Competitive Grant Program	14,060	0
16.813	NICS Act Record Improvement Program	814,580	814,580
16.816	John R. Justice Prosecutors and Defenders Incentive Act	37,027	35,327
16.922	Equitable Sharing Program	139,396	0
	Total Department of Justice	29,378,409	25,585,959
Department of Labor			
17.002	Labor Force Statistics	1,067,042	0
17.005	Compensation and Working Conditions	256,097	0
	Employment Service Cluster:		
17.207	Employment Service/Wagner-Peyser Funded Activities	13,492,103	0
17.801	Disabled Veterans' Outreach Program (DVOP)	1,994,384	0
17.804	Local Veterans' Employment Representative Program	980,496	0
	Total Employment Service Cluster	16,466,983	0
17.225	Unemployment Insurance	351,364,706	0
17.235	Senior Community Service Employment Program	2,078,552	2,025,025
17.245	Trade Adjustment Assistance	7,313,100	0
	WIOA Cluster:		
17.258	WIOA Adult Program	13,997,488	13,480,496
17.259	WIOA Youth Activities	15,273,559	13,509,507
17.278	WIOA Dislocated Workers Formula Grants	14,708,431	13,403,945
	Total WIOA Cluster	43,979,478	40,393,948
17.268	H-1B Job Training Grants	170,207	154,869
17.271	Work Opportunity Tax Credit Program (WOTC)	415,341	0
17.273	Temporary Labor Certification for Foreign Workers	176,738	0
17.277	WIOA National Dislocated Worker Grants/WIA National Emergency Grants	2,853,592	2,743,980
17.280	WIOA Dislocated Worker National Reserve Demonstration Grants	2,126,412	2,077,006
17.285	Apprenticeship USA	345,534	315,904
17.504	Consultation Agreements	1,286,416	0
17.600	Mine Health and Safety Grants	340,342	0
	Total Department of Labor	430,240,540	47,710,732
Department of Transportation			
20.106	Airport Improvement Program	29,961,289	29,961,188
	Highway Planning and Construction Cluster:		
20.205	Highway Planning and Construction	841,010,247	137,397,287
20.219	Recreational Trails Program	2,285,287	1,093,283
20.224	Federal Lands Access Program	3,740,607	1,937,863
	Total Highway Planning and Construction Cluster	847,036,141	140,428,433
20.218	Motor Carrier Safety Assistance	4,014,254	0
20.231	Performance and Registration Information Systems Management	3,132	0
20.237	Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	609,967	0
20.240	Fuel Tax Evasion - Intergovernmental Enforcement Effort	39,915	0
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	6,577,367	6,577,367
	Federal Transit Cluster:		
20.500	Federal Transit Capital Investment Grants	124,711	124,711
20.526	Bus and Bus Facilities Formula Program	1,000,464	1,000,464
	Total Federal Transit Cluster	1,125,175	1,125,175

State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Federal Grantor Agency - Program or Cluster Name	Federal Awards Expended	Amount Provided to Subrecipients
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	170,029	55,577
20.509	Formula Grants for Rural Areas	18,845,693	17,789,802
	Transit Services Programs Cluster:		
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	3,970,411	3,689,526
20.516	Job Access and Reverse Commute Program	199,491	199,491
20.521	New Freedom Program	378,867	378,867
	Total Transit Services Programs Cluster	4,548,769	4,267,884
20.528	Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant	335,246	183,196
	Highway Safety Cluster:		
20.600	State and Community Highway Safety	5,700,605	3,908,047
20.616	National Priority Safety Programs	5,770,490	478,177
	Total Highway Safety Cluster	11,471,095	4,386,224
20.607	Alcohol Open Container Requirements	5,311,331	3,835,318
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	194,539	0
20.700	Pipeline Safety Program State Base Grant	486,386	0
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	406,264	100,049
20.720	State Damage Prevention Program Grants	66,821	0
20.721	PHMSA Pipeline Safety Program One Call Grant	10,000	0
Total Department of Transportation		931,213,413	208,710,213
Department of the Treasury			
21.016	Equitable Sharing	42,921	0
Total Department of the Treasury		42,921	0
Equal Employment Opportunity Commission			
30.U01	Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	688,260	0
Total Equal Employment Opportunity Commission		688,260	0
General Services Administration			
39.003	Donation of Federal Surplus Personal Property	1,817,313	1,498,137
39.011	Election Reform Payments	760,762	632,103
Total General Services Administration		2,578,075	2,130,240
National Foundation on the Arts and the Humanities			
45.025	Promotion of the Arts Partnership Agreements	791,052	432,494
45.310	Grants to States	2,943,874	1,820,391
Total National Foundation on the Arts and the Humanities		3,734,926	2,252,885
Small Business Administration			
59.061	State Trade Expansion	467,753	163,508
Total Small Business Administration		467,753	163,508
Department of Veterans Affairs			
64.005	Grants to States for Construction of State Home Facilities	531,408	0
64.015	Veterans State Nursing Home Care	72,597,884	0
64.024	VA Homeless Providers Grant and Per Diem Program	719,139	719,139
64.101	Burial Expenses Allowance for Veterans	825,517	0
64.115	Veterans Information and Assistance	401,660	0
Total Department of Veterans Affairs		75,075,608	719,139
Environmental Protection Agency			
66.032	State Indoor Radon Grants	186,436	0

State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Federal Grantor Agency - Program or Cluster Name	Federal Awards Expended	Amount Provided to Subrecipients
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities	728,258	0
66.040	State Clean Diesel Grant Program	125,824	100,285
66.202	Congressionally Mandated Projects	2,029	0
66.204	Multipurpose Grants to States and Tribes	5,236	0
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	258,448	52,007
66.433	State Underground Water Source Protection	110,607	0
66.454	Water Quality Management Planning	398,906	194,372
	Clean Water State Revolving Fund Cluster:		
66.458	Capitalization Grants for Clean Water State Revolving Funds	41,357,922	33,802,079
	Total Clean Water State Revolving Fund Cluster	41,357,922	33,802,079
66.460	Nonpoint Source Implementation Grants	1,337,843	1,010,055
66.461	Regional Wetland Program Development Grants	137,134	45,833
	Drinking Water State Revolving Fund Cluster:		
66.468	Capitalization Grants for Drinking Water State Revolving Funds	28,502,941	20,556,738
	Total Drinking Water State Revolving Fund Cluster	28,502,941	20,556,738
66.605	Performance Partnership Grants	13,347,511	193,816
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	526,993	0
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	346,592	0
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	1,637,634	329,795
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	492,671	0
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	997,992	70,014
66.817	State and Tribal Response Program Grants	968,918	0
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	85,841	0
Total Environmental Protection Agency		91,555,736	56,354,994
Department of Energy			
81.041	State Energy Program	801,053	2,500
81.042	Weatherization Assistance for Low-Income Persons	5,949,664	5,126,211
81.092	Environmental Restoration	312,844	0
81.104	Environmental Remediation and Waste Processing Disposal	150,330	0
81.119	State Energy Program Special Projects	172,531	125,183
81.136	Long-Term Surveillance and Maintenance	58,790	0
81.138	State Heating Oil and Propane Program	3,496	0
Total Department of Energy		7,448,708	5,253,894
Department of Education			
84.U01	Cooperative System Grant	21,183	0
84.002	Adult Education - Basic Grants to States	8,816,840	7,663,292
84.010	Title I Grants to Local Educational Agencies	245,273,300	243,726,585
84.011	Migrant Education State Grant Program	2,045,682	1,973,488
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	1,159,553	1,159,553
	Special Education Cluster (IDEA):		
84.027	Special Education Grants to States	227,827,502	202,836,011
84.173	Special Education Preschool Grants	5,791,746	5,791,746
	Total Special Education Cluster (IDEA)	233,619,248	208,627,757
84.032	Federal Family Education Loans	79,408,383	0
84.048	Career and Technical Education - Basic Grants to States	22,641,035	20,861,697
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	68,765,253	0
84.144	Migrant Education Coordination Program	41,748	39,778
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	510,631	0
84.181	Special Education - Grants for Infants and Families	10,979,059	0
84.184	School Safety National Activities	767,813	0

State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Federal Grantor Agency - Program or Cluster Name	Federal Awards Expended	Amount Provided to Subrecipients
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	796,776	0
84.196	Education for Homeless Children and Youth	1,126,163	1,104,561
84.224	Assistive Technology	154,390	154,390
84.282	Charter Schools	1,067,515	1,065,435
84.287	Twenty-First Century Community Learning Centers	15,698,533	15,334,644
84.323	Special Education - State Personnel Development	1,781,915	1,781,915
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	34,559	5,384
84.326	Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	153,621	0
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	227,784	227,784
84.358	Rural Education	3,320,314	3,320,314
84.365	English Language Acquisition State Grants	5,465,729	5,293,352
84.366	Mathematics and Science Partnerships	2,870,111	2,868,628
84.367	Supporting Effective Instruction State Grant	40,603,216	39,557,934
84.369	Grants for State Assessments and Related Activities	6,961,922	0
84.377	School Improvement Grants	3,875,562	3,694,678
84.902	National Assessment of Educational Progress	101,419	0
Total Department of Education		758,289,257	558,461,169
National Archives and Records Administration			
89.003	National Historical Publications and Records Grants	10,460	0
Total National Archives and Records Administration		10,460	0
Elections Assistance Commission			
90.401	Help America Vote Act Requirements Payments	900,602	361,551
Total Elections Assistance Commission		900,602	361,551
Department of Health and Human Services			
93.041	Special Programs for Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	88,583	37,910
93.042	Special Programs for Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	299,048	76,046
93.043	Special Programs for Aging, Title III, Part D, Disease Prevention and Health Promotion	298,843	283,265
	Aging Cluster:		
93.044	Special Programs for Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	7,491,720	7,142,268
93.045	Special Programs for Aging, Title III, Part C, Nutrition Services	12,146,024	11,674,919
93.053	Nutrition Services Incentive Program	3,993,471	3,993,471
	Total Aging Cluster	23,631,215	22,810,658
93.052	National Family Caregiver Support, Title III, Part E	2,752,077	2,637,384
93.069	Public Health Emergency Preparedness	10,780,657	5,875,642
93.070	Environmental Public Health and Emergency Response	1,709,911	397,002
93.071	Medicare Enrollment Assistance Program	414,729	105,895
93.073	Birth Defects and Developmental Disabilities-Prevention and Surveillance	90,293	0
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	790,586	689,369
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	28,707	28,707
93.090	Guardianship Assistance	5,357,433	0
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	718,582	588,819
93.093	Affordable Care Act (ACA) Health Profession Opportunity Grants	2,555,696	2,555,696
93.094	Well-Integrated Screening and Evaluation for Women Across the Nation	703,563	509,176
93.103	Food and Drug Administration Research	1,702,038	600

State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Federal Grantor Agency - Program or Cluster Name	Federal Awards Expended	Amount Provided to Subrecipients
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional	361,569	347,302
93.110	Maternal and Child Health Federal Consolidated Programs	194,693	71,370
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	730,873	233,600
93.127	Emergency Medical Services for Children	113,585	54,014
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	306,973	61,808
93.136	Injury Prevention and Control Research and State and Community Based Programs	854,376	561,989
93.150	Projects for Assistance in Transition from Homelessness (PATH)	822,040	820,000
93.165	Grants to States for Loan Repayment Program	236,574	236,574
93.184	Disabilities Prevention	104,518	53,788
93.234	Traumatic Brain Injury State Demonstration Grant Program	253,177	197,434
93.235	Affordable Care Act (ACA) Abstinence Education Program	1,436,741	937,130
93.236	Grants to States to Support Oral Health Workforce Activities	75,168	72,205
93.240	State Capacity Building	314,285	0
93.241	State Rural Hospital Flexibility Program	555,477	377,158
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	7,731,613	7,198,678
93.251	Universal Newborn Hearing Screening	249,859	147,268
93.268	Immunization Cooperative Agreements	69,605,697	183,434
93.270	Adult Viral Hepatitis Prevention and Control	89,607	0
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	1,455,060	1,039,404
93.301	Small Rural Hospital Improvement Grant Program	367,569	350,427
93.305	National State Based Tobacco Control Programs	994,787	198,949
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	98,584	0
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	1,288,566	15,872
93.324	State Health Insurance Assistance Program	914,939	0
93.336	Behavioral Risk Factor Surveillance System	70,304	0
93.369	ACL Independent Living State Grants	281,171	206,913
93.464	ACL Assistive Technology	477,642	207,625
93.500	Pregnancy Assistance Fund Program	761,511	761,511
	Maternal, Infant, and Early Childhood Home Visiting Cluster:		
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting	2,445,333	2,212,352
93.870	Maternal, Infant, and Early Childhood Home Visiting Grant Program	1,099,480	870,948
	Total Maternal, Infant, and Early Childhood Home Visiting Cluster	3,544,813	3,083,300
93.506	ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	92,189	0
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	453,835	56,766
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	2,496,200	59,853
93.556	Promoting Safe and Stable Families	4,852,335	135,757
	TANF Cluster:		
93.558	Temporary Assistance for Needy Families	221,310,804	12,565,191
	Total TANF Cluster	221,310,804	12,565,191
93.563	Child Support Enforcement	40,425,975	16,032,532
93.566	Refugee and Entrant Assistance State/Replacement Designee Administered Programs	4,700,165	2,004,986
93.568	Low-Income Home Energy Assistance	65,026,314	35,055,763
93.569	Community Services Block Grant	21,141,746	19,800,071
	CCDF Cluster:		
93.575	Child Care and Development Block Grant	69,459,217	3,981,419
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	56,058,248	0
	Total CCDF Cluster	125,517,465	3,981,419

State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Federal Grantor Agency - Program or Cluster Name	Federal Awards Expended	Amount Provided to Subrecipients
93.576	Refugee and Entrant Assistance Discretionary Grants	266,123	264,665
93.586	State Court Improvement Program	590,924	0
93.590	Community-Based Child Abuse Prevention Grants	551,913	521,266
93.597	Grants to States for Access and Visitation Programs	142,104	142,104
93.599	Chafee Education and Training Vouchers Program (ETV)	1,180,311	0
93.603	Adoption and Legal Guardianship Incentive Payments	2,558,033	0
93.609	The Affordable Care Act - Medicaid Adult Quality Grants	104,346	0
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,418,124	520,002
93.643	Children's Justice Grants to States	443,295	0
93.645	Stephanie Tubbs Jones Child Welfare Services Program	6,988,350	0
93.658	Foster Care - Title IV-E	73,451,073	105,533
93.659	Adoption Assistance	37,360,692	0
93.667	Social Services Block Grant	51,533,528	9,383,624
93.669	Child Abuse and Neglect State Grants	777,496	0
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	2,001,378	2,001,378
93.674	Chafee Foster Care Independence Program	3,191,760	0
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)	126,071	1,084
93.735	State Public Health Approaches for Ensuring Quitline Capacity - Funded in part by Prevention and Public Health Funds (PPHF)	426,251	423,725
93.745	PPHF Health Care Surveillance/Health Statistics Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	159,020	0
93.747	Elder Abuse Prevention Interventions Program	81,271	0
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	2,553,581	1,673,806
93.753	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program	447,609	13,170
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	695,422	306,038
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	4,387,046	1,556,318
93.767	Children's Health Insurance Program	211,395,352	0
	Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	1,819,540	0
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	19,304,502	0
93.778	Medical Assistance Program	6,620,982,171	1,158,244
	Total Medicaid Cluster	6,642,106,213	1,158,244
93.791	Money Follows the Person Rebalancing Demonstration	6,164,450	0
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	151,016	129,567
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	57,270	57,270
93.829	Section 223 Demonstration Programs to Improve Community Mental Health Services	480,355	480,355
93.876	Antimicrobial Resistance Surveillance in Retail Food Specimens	78,058	0
93.889	National Bioterrorism Hospital Preparedness Program	3,785,416	3,058,095
93.913	Grants to States for Operation of State Offices of Rural Health	169,188	5,676
93.917	HIV Care Formula Grants	18,540,724	17,956,769
93.940	HIV Prevention Activities Health Department Based	4,375,668	2,383,431
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	643,918	253,864
93.945	Assistance Programs for Chronic Disease Prevention and Control	2,423,213	1,374,200
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	185,114	0

State of Missouri
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

CFDA Number	Federal Grantor Agency - Program or Cluster Name	Federal Awards Expended	Amount Provided to Subrecipients
93.958	Block Grants for Community Mental Health Services	10,786,184	10,378,269
93.959	Block Grants for Prevention and Treatment of Substance Abuse	28,071,922	26,768,019
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	1,763,205	420,008
93.982	Mental Health Disaster Assistance and Emergency Mental Health	717,855	669,315
93.994	Maternal and Child Health Services Block Grant to the States	13,538,471	8,024,051
	Total Department of Health and Human Services	7,769,100,073	233,736,106
Corporation for National and Community Service			
94.003	State Commissions	303,101	0
94.006	AmeriCorps	3,624,903	3,619,488
94.009	Training and Technical Assistance	51,261	1,153
	Total Corporation for National and Community Service	3,979,265	3,620,641
Executive Office of the President			
95.001	High Intensity Drug Trafficking Areas Program	3,023,280	2,546,151
	Total Executive Office of the President	3,023,280	2,546,151
Social Security Administration			
	Disability Insurance/SSI Cluster:		
96.001	Social Security Disability Insurance	44,857,503	0
	Total Disability Insurance/SSI Cluster	44,857,503	0
	Total Social Security Administration	44,857,503	0
Department of Homeland Security			
97.008	Non-Profit Security Program	468,299	468,299
97.012	Boating Safety Financial Assistance	2,157,587	0
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	167,947	0
97.029	Flood Mitigation Assistance	468,691	468,691
97.032	Crisis Counseling	125,811	125,811
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	49,494,944	46,247,496
97.039	Hazard Mitigation Grant	9,266,613	8,624,853
97.041	National Dam Safety Program	95,223	66,218
97.042	Emergency Management Performance Grants	6,931,328	0
97.045	Cooperating Technical Partners	4,877,615	0
97.047	Pre-Disaster Mitigation	300,579	295,820
97.056	Port Security Grant Program	67,500	0
97.067	Homeland Security Grant Program	6,705,830	5,434,855
97.088	Disaster Assistance Projects	592,378	557,444
	Total Department of Homeland Security	81,720,345	62,289,487
	Total Expenditures of Federal Awards	$ 12,031,598,937	1,705,048,128

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

1. Significant Accounting Policies

The following is a summary of the significant accounting policies used by the State of Missouri.

A. Purpose of Schedule and Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards (Schedule) of the state of Missouri is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the state's basic financial statements. The Uniform Guidance requires a schedule that shows total federal awards expended for each federal financial assistance program, the Catalog of Federal Domestic Assistance (CFDA) number, and the total amount provided to subrecipients from each federal program. Federal financial assistance programs that have not been assigned a CFDA number are identified as CFDA Number XX.Uxx, where XX represents the federal grantor agency and Uxx represents an unknown extension number.

The Schedule includes all federal awards expended by the state during the year ended June 30, 2017, except for those programs administered by public universities and other component units, which are legally separate from the state and have been excluded from this audit. They are responsible for engaging other auditors to perform audits in accordance with the Uniform Guidance, if required.

To compile the Schedule, the Missouri State Auditor's Office required each department, agency, and office that expended direct and/or indirect federal funding during the state fiscal year to prepare a schedule of expenditures of federal awards. The schedules for the departments, agencies, and offices were combined to form the Schedule of Expenditures of Federal Awards for the state of Missouri.

B. Basis of Presentation

The accompanying Schedule includes the federal award activity of the state of Missouri for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance, which defines federal awards as federal financial assistance and cost-reimbursement contracts that non-federal entities receive or administer in the form of grants, loans, loan guarantees, non-cash assistance, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include other contracts that a federal agency uses to buy goods or services from a contractor. Because the Schedule presents only a selected portion of the operations of the state, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the state.

The Schedule presents both Type A and B federal programs administered by the state. The Uniform Guidance establishes levels to be used in defining Type A and B federal programs. Type A programs for the state are those programs that exceeded $30 million in federal disbursements, expenditures, or distributions. The determination of major and non-major programs is based on the risk-based approach outlined in the Uniform Guidance.

C. Basis of Accounting

Most expenditures presented in the Schedule are reported on the cash basis of accounting, while some are presented on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

D. Indirect Cost Rate

The state agencies administering the federal programs presented in the Schedule did not elect to use the de minimis cost rate per the Uniform Guidance.

2. Unemployment Insurance Expenditures

The Unemployment Insurance program (CFDA No. 17.225) is administered by the Department of Labor and Industrial Relations through a unique federal-state partnership that was founded upon federal law but implemented through state law. Benefits are paid from federal funds and state unemployment taxes that are deposited into the state's account in the Federal Unemployment Trust Fund. The state's administrative expenditures incurred under this program are funded by federal grants. For the purposes of presenting the expenditures of this program in the Schedule, both state and federal funds have been considered federal awards expended. The breakdown of the state and federal portions of the total program expenditures for the fiscal year ended June 30, 2017, is as follows:

State Portion (Benefits Paid)	$300,031,446
Federal Portion (Benefits Paid)	15,059,971
Federal Portion (Administrative Costs)	36,273,289
Total Program Expenditures	$351,364,706

3. Special Supplemental Nutrition Program for Women, Infants and Children (WIC) Rebates

The state received cash rebates from an infant formula manufacturer totaling $36,085,020 on sales of formula to participants in the WIC program (CFDA No. 10.557) administered by the Department of Health and Senior Services (DHSS). This amount was excluded from total program expenditures. Rebate contracts with infant formula manufacturers are authorized by 7 CFR Section 246.16a as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefit costs. The state was able to extend program benefits to more persons than could have been served this fiscal year in the absence of the rebate contract.

4. Medical Assistance Program (Medicaid) and Children's Health Insurance Program (CHIP) Prescription Drug Rebates

The state received cash rebates from drug manufacturers totaling $315,180,911 (federal share) on purchases of covered outpatient drugs for participants in the Medicaid and the CHIP (CFDA Nos. 93.778 and 93.767) administered by the Department of Social Services - MO HealthNet Division. This amount was excluded from total program expenditures. Rebate contracts with drug manufacturers are authorized by 42 USC Section 1396r-8 as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for medical assistance costs.

5. HIV Care Formula Grants Prescription Drug Rebates

The state received cash rebates from drug manufacturers totaling $28,968,426 on purchases of covered drugs for participants in the HIV Care Formula Grants program (CFDA No. 93.917) administered by the DHSS. This amount was excluded from total program expenditures. The allowable use of drug rebates is restricted by 42 USC Section 300ff-26(g). Rebates represent a reduction in expenditures previously incurred for program costs.

6. Federal Loan Guarantees

Because of the Healthcare and Education Affordability Reconciliation Act enacted March 30, 2010 (Public Law 111-152), the authority to make or ensure loans under the Federal Family Education Loans program (CFDA No. 84.032) ended June 30, 2010. The Department of Higher Education (DHE) will continue to act as the federal Department of Education's agent in fulfilling the responsibilities related to the outstanding guarantees. The original principal outstanding of all loans guaranteed by the DHE is $1,416,223,417 as of June 30, 2017. The balance of defaulted loans (including principal and accrued interest) that the federal Department of Education imposes continuing compliance requirements of the DHE is $266,916,444 as of June 30, 2017.

7. Non-cash Assistance

The Schedule contains values for non-cash assistance for several programs.

Supplementation Nutrition Assistance Program (CDFA No. 10.551) expenditures totaling $1,119,417,055 represent actual disbursements for client purchases of authorized food products through the use of the electronic benefits card program administered by the Department of Social Services - Family Support Division (DSS-FSD).

The Department of Elementary and Secondary Education distributes food commodities to school districts under the National School Lunch Program (CFDA No. 10.555). Distributions are valued at the cost of the food paid by the federal government and totaled $30,593,497.

The DSS-FSD, through the Summer Food Service Program for Children (CFDA No. 10.559), provides United States Department of Agriculture (USDA)-donated foods to providers who serve free healthy meals to children and teens in low-income areas during the summer months when school is not is session. The DSS-FSD, through the Emergency Food Assistance Program

(CFDA No. 10.569), provides USDA-donated foods for disaster relief and to six non-profit food banks for distribution to food pantries and community groups for feeding those in need. Distributions are valued at the federally assigned value of the product distributed and totaled $60,834 for the Summer Food Service Program for Children and $12,153,187 for the Emergency Food Assistance Program.

The DHSS distributes food commodities to low-income persons under the Commodity Supplemental Food Program (CFDA No. 10.565). Distributions are valued at the cost of the food paid by the federal government and totaled $4,251,271.

The Department of Public Safety distributes excess federal Department of Defense (DOD) equipment to state and local law enforcement agencies under the DOD Excess Property Program (CFDA No. 12.U01). Property distributions totaled $2,450,583 when valued at the historical cost assigned by the federal government. Distributions are presented at the estimated fair market value of the property at the time of distribution, calculated as 22.47 percent of the historical cost, or $550,646.

The State Agency for Surplus Property distributes federal surplus property to eligible donees under the Donation of Federal Surplus Personal Property program (CFDA No. 39.003). Property distributions totaled $8,087,731 when valued at the historical cost assigned by the federal government. Distributions are presented at the estimated fair market value of the property at the time of distribution, calculated as 22.47 percent of the historical cost, or $1,817,313.

The DHSS distributes vaccines to local health agencies and other health care professionals under the Immunization Cooperative Agreements program (CFDA No. 93.268). Distributions are valued at the cost of the vaccines paid by the federal government and totaled $67,992,751.

State of Missouri - Single Audit
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Qualified

Unmodified for all opinion units except for the governmental activities and the General Fund, which were qualified.

Internal control over financial reporting:

• Material weaknesses identified?	X	yes	____	no
• Significant deficiencies identified?	X	yes	____	none reported
Noncompliance material to financial statements noted?	____	yes	X	no

Federal Awards

Internal control over major federal programs:

• Material weaknesses identified?	X	yes	____	no
• Significant deficiencies identified?	X	yes	____	none reported

Type of auditor's report issued on compliance for major federal programs:	Qualified

Unmodified for all major federal programs except for the following major programs that were qualified:
Unemployment Insurance
Child Care and Development Fund (CCDF) Cluster
Children's Health Insurance Program
Medicaid Cluster

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance (2 CFR 200.516(a))?	X	yes	____	no

The following programs were audited as major federal programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225	Unemployment Insurance
	Clean Water State Revolving Fund Cluster:
66.458	Capitalization Grants for Clean Water Revolving Funds
66.605	Performance Partnership Grants
84.010	Title I Grants to Local Educational Agencies
84.032	Federal Family Education Loans
84.367	Supporting Effective Instruction State Grant
	CCDF Cluster:
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.767	Children's Health Insurance Program
	Medicaid Cluster:
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs: $30,000,000

Auditee qualified as a low-risk auditee? ______ yes __X__ no

Section II - Financial Statement Findings

2017-001. Unemployment Compensation Fund - Financial Reporting and Benefit Payment Account Controls

The Department of Labor and Industrial Relations (DLIR) does not have adequate controls and procedures over financial reporting of Unemployment Compensation Fund (UCF) financial activities following the implementation of the computerized Unemployment Insurance (UI) system, UInteract, in November 2016. As a result, certain UCF financial data submitted to the Office of Administration - Division of Accounting (DOA) for the year ended June 30, 2017, was misstated. In addition, the DLIR did not reconcile the benefit payment bank account until over 1 year after UInteract system implementation.

The DLIR implemented the UInteract system, a web-based system, to automate the process for determining eligibility and making payments for the UI program. The UInteract system replaced the legacy mainframe system that had previously been used to perform these functions. The DLIR did not purchase the UInteract system financial reporting module from the vendor, and opted to prepare financial reports in-house through the Office of Administration, Information Technology Services Division (ITSD) or by requesting ad-hoc reports from the vendor.

To compile and submit UCF financial data to the DOA for inclusion in the *Missouri Comprehensive Annual Financial Report* (CAFR) for the year ended June 30, 2017, DLIR staff along with the ITSD and the UInteract vendor, prepared and compiled various reports from the UInteract system. The CAFR for the year ended June 30, 2017, reported UCF assets totaling $922.5 million (cash and cash equivalents of $793.7 million and net accounts receivable of $128.8 million), liabilities of $19.6 million, and ending net position of $902.9 million.

A. Financial reporting

The DLIR implemented the UInteract system without fully developing and testing financial reports needed to manage and report UCF activities. Financial reports are critical for documenting, reporting, and reconciling UCF financial activities on a daily, monthly, quarterly, and annual basis. Many UCF financial reports were not fully developed and functional until November 2017, 1 year after system implementation. Some reports were initially inaccurate and multiple revisions were necessary to provide accurate information to the DOA for the CAFR. As noted below, some revised reports were still inaccurate and led to immaterial misstatements in the CAFR. Additional revisions to these financial reports were subsequently made, but as of January 2018, some reports were still inaccurate.

Our review noted the following UInteract system implementation issues that led to inaccurate and/or delayed financial reports:

- The prior legacy system was not maintained as a parallel fallback until the UCF financial reports could be developed, fully tested, and validated for use.

- Some financial reports prepared from the UInteract system were prepared using incorrect programming logic, and were inaccurate and/or incomplete as a result. In addition, DLIR staff only had a limited understanding of the logic used to produce legacy system reports, making it difficult to validate and utilize similar reports in the UInteract system. Furthermore, the UInteract system reporting logic could not be verified by comparing output results to similar reports from the legacy system due to data conversion issues noted below.

- Some data was not converted completely and accurately from the legacy system to the UInteract system. For example, some converted data fields were missing, some data fields contained incompatible data, and some records were missing historical data. To correct these data conversion errors, DLIR staff indicated master records were removed, updated, and/or inserted in the UInteract system. These corrections were made in a manner that was not subject to the system's logging capabilities. In addition, corrections made in the normal course of business were reflected in the UInteract system as of the original transaction dates, and not as of the dates the corrections were made. As a result of both of these issues, reports run from the UInteract system on different dates for the same period contained different data and there are no records or other audit trails to support changes made to master records.

Reliable data and proper functioning of the UInteract system are critical to ensure accurate financial reporting. In addition to the risk of inaccurate reporting, the failure to establish adequate controls and procedures for data conversions, data corrections, and the development of accurate and timely financial reports increases the risk that fraud and/or misappropriation of assets could occur without detection. In addition, according to the Government Accountability Office[2] (GAO), as part of the control of master data (including customer and vendor data and records), the organization should have an effective auditing capability which allows changes to master data records to be recorded and reviewed where necessary. The most important factor supporting the auditing capability is that activity is properly captured and maintained by an automated logging mechanism.

B. Accounts receivable reports

Due to various UInteract system implementation and financial reporting problems noted above, net accounts receivable information submitted by the DLIR to the DOA was understated for the year ended June 30, 2017.

[2] Report GAO-09-232G, *Federal Information System Controls Audit Manual*, February 2009

Finalized accounts receivable reports, which were not developed until 11 months after system implementation and 5 months after fiscal year end, were not adequately tested for accuracy prior to submission to the DOA. Consequently, net accounts receivable balances reported for the UCF were understated. The errors were not detected by DLIR staff and the incorrect financial information was used by the DOA to prepare the CAFR. These errors, which did not materially affect the CAFR, had not been corrected as of January 2018.

Our review of the Total Monetary Delinquencies by Year report, which supports employer receivable balances reported to the DOA as of June 30, 2017, noted the following:

- Our testing of 60 employer accounts receivable balances included in the Total Monetary Delinquencies by Year report as of June 30, 2017, identified 3 (5 percent) reimbursing employer account balances that were understated by a total of $1,741. This understatement occurred because the receivable balances were incorrectly calculated in the Total Monetary Delinquencies by Year report. The programming logic used to prepare this report erroneously included refunds previously disbursed to some reimbursing employers. DLIR staff determined net employer receivables were understated by a total of $573,733 during the year ended June 30, 2017, as a result of this error.

- We determined the accounts receivable balances reported in the Total Monetary Delinquencies by Year report were further misstated because the programming logic used to build the report used transaction data tables that were inaccurate due to data conversion errors. DLIR staff determined net employer receivables were understated by a total of $208,030 during the year ended June 30, 2017, as a result of this error.

- The employer accounts receivable balances shown in the Total Monetary Delinquencies by Year report prepared on or around November 29, 2017, differed from the detailed employer accounts receivable balance data prepared on or around December 22, 2017, by approximately $1.3 million. While both reports covered the same time period, DLIR staff indicated the reports differed due to corrections to system data made between the dates the two reports were generated.

It is essential the DLIR establish controls and procedures to prepare and submit accurate and timely UCF financial reports to the DOA. Adequate systems of internal controls include the design and operation of controls which allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements.

C. Benefit payment account internal controls

The DLIR has not implemented adequate controls and procedures for reporting and reconciling benefit payment bank account activity. As a result, the cash and disbursement information reported to the DOA was potentially misstated. Any misstatements, which would not materially affect the CAFR, had not been determined or corrected as of January 2018.

Cash journals

Daily UInteract transaction summary reports, which summarize benefit payments and cancellations, do not accurately reflect actual activity. These reports are used to create cash journals which are used to prepare federal financial reports and perform monthly bank reconciliations. As similarly noted above, because cancellations of claimant benefits are dated in the UInteract system as of the original transaction date, daily transaction reports run for the same period but on different days, will contain different data when corrections are made during the time period between the dates the reports are generated. These reports are constantly changing and DLIR staff have needed to rerun these reports and revise the cash journals multiple times. For example, payments and cancellations shown in the initial (prepared in February 2017) and final (prepared in November 2017) revised cash journals for February 2017 are as follows:

		Initial Cash Journal	Final Revised Cash Journal	Difference
Cancelled Checks	$	30,898	36,168	5,270
Cancelled Debit Card		211,273	218,381	7,108
Cancelled Direct Deposit		29,626	27,359	(2,267)
Checks Issued		1,692,961	1,692,961	0
Debit Card Payments		9,606,494	9,616,555	10,061
Direct Deposit Payments		17,507,583	17,669,017	161,434

According to DLIR staff, some of these differences resulted from canceled and reissued payments that occurred when corrections to claimant bank accounts or debit card information were made. When these cancellations are made, the UInteract system cancels the payment on the date the payment was initially authorized, instead of the date of cancellation. When the benefits are subsequently reissued, the payment is reported on the date of reissuance.

As of the June 30, 2017 bank reconciliation, cumulative benefit disbursements per the revised cash journals were $277,042 less than actual benefit disbursements. These differences began accumulating at the time the UInteract system was implemented in November 2016. The DLIR could provide no further explanation or support for this difference.

Without accurate transaction summary reports and cash journals, the DLIR lacks sufficient records to accurately report cash and disbursements and reconcile the benefit payment bank account.

Outstanding check listing

The DLIR has not prepared a listing of benefit payment account outstanding checks since implementation of the UInteract system in November 2016. Instead, each month DLIR staff estimate total outstanding checks using daily transaction reports and cash journals; however, as noted above, these reports are not accurate. In the revised benefit payment bank account reconciliation as of June 30, 2017, DLIR staff estimated outstanding checks totaling $298,580; however, without an accurate listing of outstanding checks, this amount could not be verified.

Without an accurate outstanding checks listing, the DLIR lacks sufficient information to accurately reconcile the bank account.

Bank reconciliations

Benefit payment account bank reconciliations for the period November 2016 to October 2017 were not completed until November 2017, and these bank reconciliations contained numerous errors and were not reliable. This is due, in part, to the lack of accurate daily transaction summaries, cash journals, and outstanding check listings, as noted above. More accurate bank reconciliations were prepared in January 2018, but the bank reconciliations contained several reconciling items needing additional follow up.

The failure to perform accurate and timely bank reconciliations increases the risk of misstatements of cash balances in the CAFR, including misstatements due to fraud, and possible misappropriation of assets.

Internal controls

It is essential that the DLIR establish adequate controls and procedures over the benefit payment bank account. Federal regulation 2 CFR Section 200.302 requires that a non-Federal entity's financial management system provide effective controls over, and accountability for, all funds, property, and other assets and that the non-federal entity adequately safeguard all assets and assure the assets are used solely for authorized purposes. In addition, 2 CFR Section 200.303 requires the non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States and the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission." The *Standards for Internal Control in the Federal Government*, also known as the Green Book, provides that management should establish controls to periodically compare vulnerable assets to control records and secure and safeguard vulnerable assets.

Recommendations

The DLIR:

A. Develop a comprehensive plan to resolve the identified UInteract system financial reporting issues. In addition, procedures should be established to ensure corrections to UInteract system data occur in a manner subject to the system's logging capabilities.

B. Implement controls and procedures to prepare and submit accurate and timely UCF accounts receivable reports to the DOA.

C. Implement controls and procedures to prepare accurate reports for reporting and reconciling benefit payment bank account activity. In addition, the DLIR should ensure monthly reconciliations of the benefit payment account are performed timely and differences between accounting records and reconciliations are promptly investigated and resolved. Restatements should be made for any material misstatements identified.

Auditee's Response

Finding number 2017-001A,B,&C and finding number 2017-005 (which summarizes finding number 2017-001C in the federal awards section of the Schedule of Findings and Questioned Costs):

We partially agree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement and any planned actions to address the finding.

Auditor's Comment

<u>Finding Number 2017-001:</u>

The DLIR Corrective Action Plan (CAP) states the DLIR partially agrees with the finding. The CAP indicates no disagreement with the finding, but indicates the DLIR does not agree with our classification of the finding as a material weakness.

Our decisions regarding the classification of the internal control deficiencies reported in this finding were made in accordance with AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit.* AU-C Section 265.07 provides the following definitions regarding internal control 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable. *Reasonably possible* is the chance of the future event or events occurring that is more than remote but less than likely. *Probable* means the future event or events are likely to occur.

As explained in the finding, the failure to design and implement adequate controls and procedures over financial reporting when the new UInteract system was developed in November 2016 led to various reporting and reconciliation problems and misstatements. The finding outlines extensive deficiencies in the DLIR's implementation of financial reporting procedures, the lack of controls to ensure completeness and accuracy of financial reports, and the lack of proper reconciliation procedures. The DLIR did not fully develop financial reports and did not complete bank reconciliations until 1 year after system implementation. Furthermore, because the reports were not adequately validated, tested, or reviewed, some reports were initially inaccurate and required revision; and as of January 2018, some reports were still inaccurate. In addition, the revised bank reconciliations prepared in January 2018 still contained several items needing follow up.

Due to the severity of these internal control deficiencies, we believe there is a reasonable possibility the DLIR's controls will fail to prevent, or detect and correct, a material misstatement on a timely basis. Even though the misstatements we identified were not material to the state's CAFR, because the deficiencies are extensive and have not yet been resolved, there is a reasonable possibility of additional unidentified misstatements during the audit period or in future periods. Examples of our consideration of risk factors outlined in AU-C Section 265.A8 during our assessment of the severity of the internal control deficiencies include (1) the controls in question cover the financial reporting for the entire UCF, (2) the controls were new due to implementation of a new system, (3) the controls were not operating during most of the audit period, (4) the deficiencies have not been resolved and future misstatements are likely, and (5) there were no compensating controls. For these reasons, we consider this finding to be a material weakness.

One of the DLIR's arguments that a material weakness does not exist is that the financial reports contain no material misstatement. However, AU-C Section 265.A5 states significant deficiencies and material weaknesses may exist even when the auditor does not identify misstatements. The DLIR also cites the indicators of material weaknesses outlined in AU-C Section 265.A11, and states "none of the above indicators are known to exist nor have been communicated to DLIR by the SAO, thus there is no evidence that any deficiency in controls rise to a level of material weakness." However, the last indicator, "ineffective oversight of the entity's financial reporting and internal control by those charged with governance," describes the internal control deficiencies cited in the finding. The finding discusses various examples of how DLIR management's lack of oversight led to the reporting and reconciliation problems and misstatements. Furthermore, the indicators listed at AU-C Section 265.A11 are examples and are not considered an exhaustive list of indicators of a material weakness.

Finding Number 2017-005:

The DLIR disagrees with our decision to classify the finding related to the benefit payment bank account, also reported in finding 2017-005 of the federal awards section of the Schedule of Findings and Questioned Costs, as a material weakness.

As stated in the finding, federal regulations require the DLIR to maintain effective controls over, and accountability for, all funds of the Unemployment Insurance program. Because bank reconciliations serve as an essential internal control in the management of the Unemployment Insurance program and this control was not operating for the majority of the audit period, this finding is considered a material weakness.

2017-002. Unemployment Compensation Fund - Segregation of Duties

The Department of Labor and Industrial Relations (DLIR) did not adequately segregate the duties of administering Unemployment Insurance (UI) benefits and authorizing transactions from the benefit payment bank account.

The Division of Employment Security (DES) determines claimant eligibility and authorizes UI benefit payments, and the DLIR Administration - Financial Management Unit (FM) maintains the various bank accounts of the Unemployment Compensation Fund and works with the bank to manage these accounts. However, a DES Benefits Analyst occasionally contacted the bank directly to authorize and reverse UI benefit payments from the benefit payment bank account. These bank transactions were made without any independent supervisory review, which increases the risk of misappropriation. In addition, the FM was not notified of these transactions. DLIR officials indicated these transactions occurred during November and December 2016, after implementation of the new UInteract computerized system. In January 2018, following our inquiry about the Benefits Analyst's access to the benefit payment bank account, the DES contacted the bank to remove this employee's access to the account.

Proper segregation of duties is necessary to ensure all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by ensuring DES employees do not have access to authorize transactions from UI bank accounts. In addition, 2 CFR Section 200.303 requires the non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States and the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission." The *Standards for Internal Control in the Federal Government*, also known as the Green Book, provides that management should 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.

Recommendation

The DLIR, through the DES and the FM, restrict employee access to UI bank accounts and adequately segregate duties related to administering UI benefits and authorizing transactions from the UI bank accounts.

Auditee's Response

Finding number 2017-002 and finding number 2017-009 (which summarizes finding number 2017-002 in the federal awards section of the Schedule of Findings and Questioned Costs):

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

2017-003. Unemployment Compensation Fund - Transfers

The Department of Labor and Industrial Relations (DLIR) did not establish procedures to transfer interest and penalty collections to the Special Employment Security Fund (SESF) as required by state law. As of June 30, 2017, the DLIR had not transferred interest and penalties totaling approximately $3.4 million held in the Unemployment Compensation Fund (UCF) to the SESF.

The DLIR, Division of Employment Security deposits Unemployment Insurance program interest and penalty collections into the UCF. Prior to implementation of the new UInteract computerized system in November 2016, DLIR Administration - Financial Management Unit (FM) personnel made monthly and quarterly transfers of interest and penalties from the UCF to the SESF to comply with state law. However, as of February 2018, the last transfer to the SESF was for a portion of the November 2016 collections. According to FM personnel, the UInteract system does not have the capability of producing manual checks necessary to transfer the funds, and alternate procedures to transfer the funds have not been developed.

Section 288.310, RSMo, requires all penalties and interest collected under the provisions of the Missouri Employment Security Law be paid to the SESF. The DLIR receives appropriations from the SESF for various administrative expenses. To comply with state law and make these monies available for intended purposes, the FM needs to establish procedures to make the required transfers.

Recommendation

The DLIR establish procedures to ensure interest and penalty collections are transferred to the SESF, as required by state law.

Auditee's Response

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

Section III - Federal Award Findings and Questioned Costs

2017-004. Unemployment Insurance Federal Reporting

Federal Agency:	U.S. Department of Labor (USDOL)
Federal Program:	17.225 Unemployment Insurance 2014 - UI-25214-14-55-A-29 2016 - UI-27986-16-55-A-29 2017 - UI-29906-17-55-A-29
State Agency:	Department of Labor and Industrial Relations (DLIR)
Type of Finding:	Internal Control (Material Weakness) and Noncompliance

The DLIR has not established adequate controls and procedures to prepare and submit accurate, complete, and timely federal reports for the Unemployment Insurance (UI) program. Our review of various federal reports identified several federal financial reports that were not accurate and/or were not submitted within the required timeframes.

The DLIR is required to prepare and submit various reports to the USDOL, Employment and Training Administration (ETA), on a monthly or quarterly basis. ET Handbooks[3], published by the USDOL, outline the requirements for reporting financial and/or program activities. DLIR personnel pull data from the DLIR's UInteract computerized system to enter into the USDOL's computerized reporting systems to create the various reports. Similar to the problems regarding financial reporting noted in finding number 2017-001, the DLIR has encountered difficulties and delays in preparing accurate federal reports since implementation of the new UInteract system in November 2016.

Inaccurate reporting

Our review of certain federally-required reports noted three financial reports were inaccurate. While DLIR personnel, along with the UInteract system vendor, developed various queries and reports to pull data from the UInteract system, the DLIR did not perform sufficient testing or review the data to validate its accuracy and completeness prior to reporting the data in federal reports. In addition, each of these reports was prepared using system data and/or reports we identified in finding number 2017-001 as being inaccurate. Furthermore, some information in these federal reports was not supported by adequate supporting documentation. Because accurate and complete supporting documentation was not prepared, we were unable to confirm or verify some information in the reports or determine the extent of the reporting errors.

Below are some examples of the inaccuracies identified during our review of federal reports submitted for the year ended June 30, 2017.

[3] *ET Handbook No. 336,* 18th Edition*; ET Handbook No. 401,* 4th Edition*;* and *ET Handbook No. 356*

- The beginning overpayment receivables balances (April 1, 2017) shown in the UInteract report supporting the *ETA 227 - Overpayment Detection and Recovery Activity* (ETA 227) report for the quarter ended (QE) June 30, 2017, did not match the ending overpayment receivables balances in the UInteract report supporting the previous QE March 31, 2017, ETA 227 report as shown in the table below.

Overpayment Type(1)	QE June 30, 2017 Beginning Balance (April 1, 2017)	QE March 31, 2017 Ending Balance
Fraud - UI	$8,937,160	$18,807,046
Fraud - UCFE/UCX	117,042	108,469
Fraud - EB	4,020	270,659
Non-fraud - UI	7,901,265	8,304,247
Non-fraud - UCFE/UCX	120,795	123,076
Non-fraud - EB	0	(574)

(1) UI = Unemployment Insurance; UCFE/UCX = Unemployment Compensation for Federal Employees and Ex-service members; EB = Extended Benefits

In addition, according to DLIR personnel, upon UInteract system implementation, the ending overpayment receivables balances reported in the legacy system for the QE September 30, 2016, did not agree to the beginning overpayment receivables balances reported in the UInteract system for the QE December 31, 2016. To try to address this and subsequent balance issues, when preparing ETA 227 reports, DLIR personnel made adjustments to the amounts shown in the UInteract reports in an attempt to more accurately state the ending balances in the ETA 227 report. DLIR personnel could not provide documentation to support how the adjustments were determined or explain why the beginning and previous ending balances did not agree.

- The beginning employer receivables balances (January 1, 2017) shown in the UInteract report supporting *ETA 581 - Contribution Operations* (ETA 581) report for the QE March 31, 2017, did not match the ending employer receivables balances in the UInteract report supporting the previous QE December 31, 2016, ETA 581 report as shown in the table below.

Employer Type	QE March 31, 2017 Beginning Balance (January 1, 2017)	QE December 31, 2016 Ending Balance
Contributory	$7,989,632	$5,920,001
Reimbursing	894,659	876,701

DLIR personnel acknowledged the report was inaccurate, but could not explain why the balances did not agree.

- Beginning in November 2016, monthly *ETA 2112 - UI Financial Transaction Summary* (ETA 2112) reports do not include amounts received from reimbursing employers. Because these amounts are not reported, Net UI Contributions reported are overstated and other amounts calculated using Net UI Contributions are misstated. DLIR personnel indicated they have not yet developed UInteract system reports to show the amounts received from reimbursing employers or to properly calculate Net UI Contributions. In addition, the Net UI Contributions reported are likely further misstated because the ETA 2112 reports were prepared using inaccurate daily transaction summary reports (see finding number 2017-001C).

DLIR personnel acknowledged each of these federal financial reports are inaccurate and indicated they are working to develop accurate reports that will be resubmitted to the USDOL when finalized.

Untimely reporting

In addition, the DLIR submitted the ETA 227 report for the QE December 31, 2016, more than 2 months late; the ETA 227 report for QE March 31, 2017, 1 week late; and the ETA 581 report for QE December 31, 2016, 2 weeks late. The *ET Handbook No. 401,* 4th Edition, requires states to submit quarterly ETA 227 reports by the first day of the second month after the quarter, and quarterly ETA 581 reports by the 20th day of the second month following the quarter.

Conclusion

It is essential the DLIR establish controls and procedures to prepare and submit accurate and timely federal reports as required. Federal regulation 2 CFR Section 200.303 requires the non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." Such controls include designing and programming queries and reports that are complete and accurate and used to prepare reliable federal reports.

Recommendation

The DLIR establish controls and procedures to ensure required federal reports are accurately prepared and submitted in accordance with federal requirements. These procedures should ensure the UInteract system supporting queries and reports are properly designed and programmed to achieve federal reporting objectives. In addition, the DLIR should continue to review, revise, and resubmit previously submitted inaccurate federal reports.

Auditee's Response

We partially agree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement and any planned actions to address the finding.

Auditor's Comment

The DLIR Corrective Action Plan (CAP) states the DLIR partially agrees with the finding. The CAP indicates no disagreement with the finding, but indicates the DLIR does not agree with our classification of the finding as a material weakness.

Our decisions regarding the classification of the internal control deficiencies reported in this finding were made in accordance with AU-C Section 935, *Compliance Audits* and the *Audit Guide Government Auditing Standards and Single Audits (Audit Guide)*, published by the AICPA. The Audit Guide adapts and applies the guidance in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*, to a Uniform Guidance audit. The Audit Guide paragraph 9.47 provides the following definitions regarding internal control deficiencies: a *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable. *Reasonably possible* is the chance of the future event or events occurring that is more than remote but less than likely. *Probable* means the future event or events are likely to occur.

As explained in the finding, the failure to design and implement adequate controls and procedures to prepare and submit accurate, complete, and timely federal reports led to the submission of inaccurate and untimely reports to the USDOL. This instance of noncompliance with federal reporting requirements is considered material noncompliance due to the significance and frequency of report types and reporting periods submitted with inaccuracies. In addition, as stated in the finding, we were unable to confirm or verify some information in the reports or determine the extent of the reporting errors. The finding explains the DLIR, along with its vendor, developed various queries to pull data from the new UInteract system, but did not perform sufficient testing or review the data to validate its accuracy and completeness prior to reporting the data in federal reports. In addition, the reports were prepared using data and/or reports we identified in finding number 2017-001 (also a material weakness) as being inaccurate.

As noted in the finding, the DLIR's controls failed to prevent and correct the material noncompliance identified. Because the internal control deficiencies have not been corrected, there is a reasonable possibility future reports will also be inaccurately submitted. Examples of our consideration of risk factors outlined in the Audit Guide paragraph 9.51 during our assessment of the severity of the internal control deficiencies include (1) the controls in question cover many types of required federal reports that together report all activities of the UI program, (2) the controls were new due to implementation of a new system, (3) the controls are related to financial reporting controls which were also identified as a material weakness, (4) there were no compensating controls, and (5) the deficiencies have not been resolved and future noncompliance is likely. In addition, the failure to submit accurate federal reports could affect the DLIR's future funding for the administration of the UI program. Further, when federal reports are not accurate, the USDOL and the DLIR cannot effectively monitor the integrity of UI program benefit processes. For these reasons, we consider this finding to be a material weakness.

The DLIR's CAP cites the four indicators of material weaknesses outlined in AU-C Section 265.A11, and states "none of the above indicators are known to exist nor have been communicated to DLIR by the SAO, thus there is no evidence that any deficiency in controls rise to a level of material weakness." However, the last indicator, "ineffective oversight of the entity's financial reporting and internal control by those charged with governance," which is adapted for Uniform Guidance audits in the Audit Guide paragraph 9.57 to "ineffective oversight by management, or those charged with governance, over compliance with program requirements where the activity is subject to a type of compliance requirement (for example, lack of adequate review of federal financial reports prior to submission to the grantor)," is specifically addressed in the audit finding. Furthermore, the indicators listed at AU-C Section 265.A11 and Audit Guide paragraph 9.57 are examples and are not considered an exhaustive list of indicators of material weakness.

2017-005. Unemployment Insurance Benefit Payment Bank Account Internal Controls

Federal Agency:	U.S. Department of Labor
Federal Program:	17.225 Unemployment Insurance 2014 - UI-25214-14-55-A-29 2016 - UI-27986-16-55-A-29 2017 - UI-29906-17-55-A-29
State Agency:	Department of Labor and Industrial Relations (DLIR)
Type of Finding:	Internal Control (Material Weakness)

The DLIR has not implemented adequate controls and procedures for reporting and reconciling the activities of the Unemployment Insurance benefit payment bank account. See Financial Statement Finding number 2017-001C.

2017-006. Unemployment Insurance Wage Cross-matches

Federal Agency:	U.S. Department of Labor (USDOL)
Federal Program:	17.225 Unemployment Insurance 2014 - UI-25214-14-55-A-29 2016 - UI-27986-16-55-A-29 2017 - UI-29906-17-55-A-29
State Agency:	Department of Labor and Industrial Relations (DLIR) - Division of Employment Security (DES)
Type of Finding:	Internal Control (Significant Deficiency) and Noncompliance

The DES did not follow established controls over Unemployment Insurance (UI) program eligibility and payments related to wage cross-matches, and as a result, federally-required wage cross-matches were not performed during the 9-month period after implementation of the new UInteract computerized system.

The DES is charged with the administration of the UI program, including determining claimant eligibility and making benefit payments, as required by Missouri Employment Security laws and regulations. To monitor claimants' continued eligibility and ensure payments are proper, DES staff, in coordination with the Office of Administration - Information Technology Services Division, perform various periodic wage cross-matches of UI system claimant data to data obtained from third parties. Unemployment Insurance Program Letter (UIPL) 19-11 requires wage cross-matches to the National Directory of New Hires (NDNH). The mandatory use of the NDNH is based on the USDOL's authority granted under 42 USC Section 503(a)(1) and 26 USC Sections 3306(h) and 3304(a)(4). The federal guidance recommends weekly NDNH wage cross-matches and daily State Directory of New Hires (SDNH) wage cross-matches. DES procedures require the NDNH wage cross-matches be performed weekly and SDNH wage cross-matches be performed twice per week. DES staff investigate wage cross-match results to identify claimants who are ineligible and/or received improper payments. For the claimants determined to be ineligible, DES staff stop future benefit payments, establish overpayments in the UInteract system, and initiate recoupment efforts.

The DES stopped performing NDNH and SDNH wage cross-matches in October 2016, approximately 1 month prior to implementation of the new computerized system, UInteract, on November 14, 2016. The DES resumed the SDNH wage cross-matches in November 2016, but due to various system programming issues, the DES did not resume the NDNH wage cross-matches until July 2017. Because the required NDNH wage cross-matches were not performed during the 9-month period, DES staff could not timely investigate wage cross-match results for ineligible claimants and/or improper payments.

In addition to noncompliance with federal requirements, the failure to follow established controls to perform wage cross-matches increases the risk that payments will be made to ineligible claimants, and/or improper payments will go undetected. In addition, the failure to perform prompt investigations can adversely affect the DES's ability to perform the investigations and recoup identified overpayments. Federal regulation 2 CFR Section 200.303 requires the non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

Recommendation

The DLIR, through the DES, ensure wage cross-matches are performed in accordance with federal requirements.

Auditee's Response

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

2017-007. Unemployment Insurance Benefit Accuracy Measurement Program

Federal Agency:	U.S. Department of Labor (USDOL)
Federal Program:	17.225 Unemployment Insurance 2014 - UI-25214-14-55-A-29 2016 - UI-27986-16-55-A-29 2017 - UI-29906-17-55-A-29
State Agency:	Department of Labor and Industrial Relations (DLIR) - Division of Employment Security (DES)
Type of Finding:	A - Internal Control (Significant Deficiency) and Noncompliance B - Internal Control (Significant Deficiency) and Noncompliance C - Internal Control (Significant Deficiency)

The DES did not comply with Unemployment Insurance (UI) program Benefit Accuracy Measurement (BAM) case investigation requirements. In addition, the DES has not established written policies and procedures regarding supervisory reviews of BAM case investigations.

The UI BAM program, administered by the DES's BAM unit, serves as a control over UI eligibility and benefit payments. The BAM program provides the basis for assessing the accuracy of UI benefit payments and denied claims, assessing improvements in program accuracy and integrity, and encouraging more efficient administration of the UI program.

Federal regulation 20 CFR Section 602.21(c) requires each state to complete prompt and in-depth BAM case investigations to determine the degree of accuracy and timeliness in the administration of the state UI law and the federal UI program with respect to benefit determinations, benefit payments, and revenue collections. The *ET Handbook No. 395,* 5th Edition, published by the USDOL, Employment and Training Administration establishes time limits for completion of all case investigations and mandates the use of National Directory of New Hires (NDNH) cross-matches as part of BAM paid claim case investigations. The results of the BAM investigations are entered into the Data Collection Instrument in the USDOL's Sun computerized system.

A. Timeliness

According to DES reports of BAM paid and denied claim case investigations performed during state fiscal year 2017, the DES did not complete investigations within the required timeframes as noted in the following table:

	Percentage of Cases Completed within 60 Days		Percentage of Cases Completed within 90 Days	
Claims Type	Required %	Actual %	Required %	Actual %
Paid Claims	70	23	95	32
Denied Claims - Monetary	60	42	85	52
Denied Claims - Separation	60	32	85	41
Denied Claims - Nonseparation	60	30	85	38

DES's State Quality Service Plan for the federal fiscal year ending September 30, 2018, indicated the BAM unit experienced backlogs of BAM investigations because the BAM unit was unable to select and assign cases to BAM auditors during the period November 2016 to March 2017 due to system issues associated with the implementation of the UInteract computerized system. While this case assignment issue was being corrected, the BAM investigators were reassigned to assist with other duties. The DES hired two additional investigators in May 2017 to help reduce the backlog. In addition to noncompliance with federal requirements, the failure to complete BAM case investigations timely can adversely affect the DES's ability to recoup identified overpayments.

B. NDNH cross-matches

BAM paid claim case investigations performed during the period October 2016 to July 2017 did not include NDNH wage cross-matches. Our sample of 60 BAM case investigations during state fiscal year 2017 included 27 paid claims, of which 18 (67 percent) were not cross-matched with the NDNH.

As noted in finding number 2017-006, the DES did not perform cross-matches to the NDNH during the 9-month period due to issues with the new UInteract system. In addition to noncompliance with federal requirements, the failure to perform wage cross-matches during BAM paid claim case investigations increases the risk that payments will be made to ineligible claimants, and/or improper payments will go undetected.

C. Supervisory reviews

The DES has not established written policies and procedures regarding supervisory reviews of BAM case investigations. Supervisory reviews are a control to ensure BAM case investigations are performed properly and in compliance with federal requirements, and to ensure proper resolution of identified problems.

BAM unit supervisors are not required to review each BAM case investigation, but are instructed to perform "spot checks" of these investigations. The DES has not established written criteria or guidance regarding the extent supervisory reviews should be performed. Our sample of 60 BAM case investigations noted 20 (33 percent) were not reviewed by a supervisor.

An August 2017 National BAM Peer Review conducted by the USDOL, found 7 of 15 (47 percent) BAM denied claim case investigations reviewed contained procedural issues, including not properly pursuing an issue to a supportable conclusion, not properly resolving an issue, or not applying BAM procedures correctly. Requiring supervisory reviews of all or more BAM case investigations than are currently being reviewed could help identify errors in BAM case investigations and prevent future errors.

Conclusion

Federal regulation 2 CFR Section 200.303 requires the non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." When supervisory reviews of BAM case investigations are not performed, the effectiveness of the BAM program is diminished, and there is decreased assurance case reviews are accurate and an increased risk of errors going undetected. To ensure controls over BAM case investigations are adequate, the DES should establish policies and procedures regarding the extent supervisory reviews should be performed.

Recommendations

The DLIR, through the DES:

A. Ensure BAM case investigations are completed within federally-required time frames.

B. Ensure BAM case investigations include NDNH cross-matches as required.

C. Establish written policies and procedures regarding supervisory reviews of BAM case investigations.

Auditee's Response

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

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

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

2017-008. Unemployment Insurance Maximum Benefit Amount

Federal Agency:	U.S. Department of Labor
Federal Program:	17.225 Unemployment Insurance 2014 - UI-25214-14-55-A-29 2016 - UI-27986-16-55-A-29 2017 - UI-29906-17-55-A-29
State Agency:	Department of Labor and Industrial Relations (DLIR) - Division of Employment Security (DES)
Type of Finding:	Internal Control (Significant Deficiency) and Noncompliance
Questioned Costs:	$134,388[4]

The DES did not properly design and implement internal controls to ensure the new Unemployment Insurance (UI) computerized system (UInteract) correctly calculates claimant Maximum Benefit Amounts (MBA). As a result, the MBA for some claimants was incorrectly calculated and some claimants received overpayments. The DLIR made unemployment benefit payments totaling approximately $315 million during the year ended June 30, 2017.

The DES is charged with the administration of the UI program, including determining claimant eligibility and making benefit payments, as required by Missouri Employment Security laws and regulations. Section 288.060.4, RSMo, states the maximum total amount of benefits payable to any insured worker during any benefit year shall not exceed twenty times his or her weekly benefit amount, or thirty-three and one-third percent of his or her wage credits, whichever is lesser. This is termed the Maximum Benefit Amount (MBA).

On November 17, 2017, approximately 1 year after the November 2016 implementation of the new UInteract computerized system, DES personnel discovered the system was not properly calculating the MBAs for some claimants. In January 2018, the system was reprogrammed to correctly calculate these claimants' MBAs, overpayments were identified in the system, and collection efforts were initiated. DES staff provided documentation as of December 15, 2017, showing the MBA was incorrectly calculated for 3,721 of 144,623 (2.6 percent) claims since implementation of the UInteract system, and 491 of these claims resulted in overpayments. Claimants were paid a total

[4] Questioned costs include overpayments for the period November 2016 to December 2017.

of $134,388 in excess of the actual MBAs allowed by law. We question this entire overpayment amount (100 percent federal share).

The MBA calculation errors occurred because the UInteract system was not adequately tested before implementation for all situations that may affect the MBA calculation, and the errors were not detected timely because the DES did not establish adequate controls to timely monitor MBA calculations. Federal regulation 2 CFR Section 200.303 requires the non-federal entity to "[e]stablish and maintain effective control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States and the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission." The *Standards for Internal Control in the Federal Government*, also known as the Green Book, states that when new controls are designed and implemented, management should ensure the controls are capable of achieving the objective and addressing related risks. In addition, management should perform ongoing monitoring to determine the effectiveness of the internal controls.

Recommendation

The DLIR through the DES continue to establish and monitor controls to ensure the UInteract system properly calculates claimant MBA and continue efforts to collect identified overpayments.

Auditee's Response

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

2017-009. Unemployment Insurance Segregation of Duties

Federal Agency:	U.S. Department of Labor
Federal Program:	17.225 Unemployment Insurance 2014 - UI-25214-14-55-A-29 2016 - UI-27986-16-55-A-29 2017 - UI-29906-17-55-A-29
State Agency:	Department of Labor and Industrial Relations (DLIR) - Division of Employment Security and DLIR Administration - Financial Management Unit
Type of Finding:	Internal Control (Significant Deficiency)

The DLIR did not adequately segregate the duties of administering Unemployment Insurance benefits and authorizing transactions from the benefit payment bank account. See Financial Statement Finding number 2017-002.

2017-010. Child Care Eligibility and Payments

Federal Agency:	Department of Health and Human Services
Federal Program:	93.575 Child Care and Development Block Grant 2016 - G1601MOCCDF 2017 - G1701MOCCDF 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund 2016 - G1601MOCCDF 2017 - G1701MOCCDF
State Agency:	Department of Social Services (DSS) - Children's Division (CD) and Family Support Division (FSD)
Type of Finding:	Internal Control (Material Weakness) and Noncompliance
Questioned Costs:	$1,659

As noted in our prior seven audit reports,[5] weaknesses continue to exist in DSS controls over Child Care and Development Fund (Child Care) subsidy eligibility and provider payments. Controls are not sufficient to prevent and/or detect payments on behalf of ineligible clients or improper payments to child care providers. Payments were made on behalf of one ineligible client and overpayments were made to some providers. The DSS has only limited procedures to review eligibility determinations and monitor payments to providers. During the year ended June 30, 2017, the DSS paid approximately 5,600 child care providers approximately $150 million for services provided to approximately 63,300 children of eligible clients.

The DSS provides funds to child care providers who serve eligible clients (parents/caregivers). Clients apply to CD or FSD case workers for participation in the Child Care subsidy program. Federal regulation 45 CFR Section 98.20 provides that to be eligible for services the child must (1) be under 13 years old, or at the option of the DSS under age 19 and physically or mentally incapable of caring for himself/herself or under court supervision, (2) live with a family who meets certain income guidelines, and (3) have parents who are working or attending a job training or educational program or receive, or need to receive, protective services. Parents who are searching for a job are considered to have a need for child care for up to 90 days or the end of the month in which the 90th day occurs.

Once approved, the client selects a child care provider and the DSS enters into an agreement/contract with the provider for child care services. The DSS Income Maintenance (IM) manual requires that case workers set maximum authorized service units for the amount and type of care that best meets the family's need; maintain case file documentation, including the Child Care

[5] *State of Missouri Single Audit*, finding numbers 2016-002A, 2015-002, 2014-005, 2013-009, 2012-11A&B, 2011-14A, and 2010-16A.

subsidy application; and verify the need for child care to support the eligibility determination. Case workers enter the maximum authorized child care service units into the Family Assistance Management Information System (FAMIS) for each child.

The IM manual and provider agreements require providers to submit monthly invoices electronically through the Child Care Online Invoicing System (CCOIS) or manually through the Child Care Provider Relations Unit. The CCOIS interfaces with the FAMIS to process provider payments. Additionally, providers are required to maintain detailed attendance records documenting daily arrival and departure times and containing client signatures verifying the children received the services. Although all providers are required to retain attendance records for 5 years, the DSS only requires registered (license exempt) providers that submit manual invoices to submit attendance records for payment.

To test compliance with program requirements, we selected a sample of 60 children. We reviewed eligibility case documentation, related provider agreements, and payment documentation supporting one payment for each of these children. The department made payments totaling approximately $18,740 to child care providers on behalf of these 60 children during the month reviewed. We noted the following:

- Child Care subsidy payments were made on behalf of a child when there was not a valid need for child care services for 1 of 60 (2 percent) cases reviewed. The client's employment ended in October 2016 and the client was authorized to receive child care subsidy for 90 days, through the end of January 2017, during the client's job search. The provider invoiced and received payments through the end of February 2017, 1 month after the job search period expired. Payments totaling $1,085, made on behalf of this child and the child's siblings for the month of February 2017, were unallowable. We question the federal share of $846 (77.99 percent).

- Documentation was not adequate to support payments for 13 of 60 (20 percent) cases reviewed. Attendance records for 2 cases were not provided by the child care provider upon our request and provider invoices did not agree to the corresponding attendance records for the other 11 cases. Unsupported payments for these 13 cases totaled $1,043. We question the federal share of $813 (77.99 percent). Known questioned costs for unsupported payments to child care providers represent approximately 5.6 percent of payments reviewed. If similar errors were made on the remaining population of Child Care subsidy payments, questioned costs could be significant.

The various errors noted above occurred because the DSS had limited controls to ensure eligibility determinations were accurate and payments were proper and adequately supported. At least three significant factors contributed to the weak control system including: (1) limited supervisory review of Child Care subsidy eligibility determinations, (2) limited compliance reviews of child care providers, and (3) minimal other procedures in place to review provider attendance records.

In response to deficiencies identified in previous audits, the DSS implemented various controls over eligibility determinations and provider payments. During the period November 2015 to April 2017, the DSS required eligibility supervisors to review a minimum of three Child Care subsidy cases each month in the case review system. In April 2017, the DSS restructured this review process by requiring eligibility supervisors to complete 20 targeted case reviews each month, focusing on areas identified as needing improvement. The number of ineligible clients identified by our audits has declined in recent years since the DSS implemented additional controls over eligibility. In addition, federal and state reductions in eligibility restrictions when a client is not working or attending classes have reduced the potential errors in eligibility due to changes in client work or education status. In September 2013, the DSS created the Child Care Review Team (CCRT) within the Division of Finance and Administrative Services, and began performing reviews of child care providers. Although the CCRT reviews noted similar provider payment issues to those noted above, the CCRT's follow up on identified provider noncompliance is not sufficient (see finding number 2017-011).

An audit performed by the federal Department of Health and Human Services (DHHS) - Office of Inspector General (OIG), *Not All of Missouri's Child Care Subsidy Program Payments Complied With Federal and State Requirements*, released in November 2017, identified similar concerns with unsupported provider payments. The DHSS-OIG audit noted attendance records were not adequately documented for 124 of 128 provider service months reviewed and projected total overpayments of $19.1 million for federal fiscal years 2014 and 2015. The audit reported the deficiencies occurred because the DSS did not exercise sufficient oversight over its Child Care subsidy program.

In January 2017, the DHHS, Administration for Children and Families (ACF), Office of Child Care issued a decision letter stating it concurred with our fiscal year 2015 audit finding and the DSS had not fully implemented corrective actions to address the repeating finding. The ACF further required, beginning in the quarter ended March 31, 2017, the DSS to provide quarterly updates of corrective actions taken and planned until the issues are resolved. The DSS's quarterly corrective action updates for March and June 2017 indicated the department continued to review procedures and monitor case reviews, and was in the process of contracting for an electronic timekeeping and attendance system. Subsequent updates had not been prepared as of February 2018.

Effective September 30, 2016, 45 CFR Section 98.68 requires the DSS to document in its Child Care subsidy state plan that it has effective controls to ensure integrity and accountability in the program. To ensure controls are effective, the DSS needs to continue to review, strengthen, and enforce policies and procedures to ensure Child Care subsidy payments are made only on behalf of eligible clients, invoices agree to the corresponding attendance records, and attendance records are complete. These procedures should include sufficient monitoring of eligibility determinations and provider payments, and follow up on errors identified.

Recommendation

The DSS, through the CD and the FSD, continue to review, strengthen and enforce policies and procedures regarding Child Care subsidy eligibility determinations and provider payments. These procedures should include sufficient monitoring of eligibility determinations and provider payments and follow up on errors identified.

Auditee's Response

We partially agree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement and any planned actions to address the finding.

Auditor's Comment

The DSS Corrective Action Plan (CAP) states the DSS partially agrees with the finding that controls are not sufficient to prevent and/or detect payments on behalf of ineligible clients. The DSS believes no further improvements to control processes over eligibility are possible. As acknowledged in the finding, improved controls and reductions in eligibility restrictions have led to fewer eligibility errors in recent audits; however, our sample did identify 1 error out of 60 cases tested, or 2 percent. During the audit, DSS officials agreed with this error and the related questioned costs; therefore, this finding remains valid.

In the CAP, the DSS states "one error does not represent a material internal control weakness nor warrant an audit finding of noncompliance." As discussed with DSS officials during the audit, the finding was not classified as a material control weakness due to the internal control deficiencies over eligibility, but due to the internal control deficiencies over provider payments. The DSS payment to an ineligible client identified in our sample is considered noncompliance under federal guidelines.

2017-011. Child Care Provider Monitoring

Federal Agency: Department of Health and Human Services
Federal Program: 93.575 Child Care and Development Block Grant
2016 - G1601MOCCDF
2017 - G1701MOCCDF
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
2016 - G1601MOCCDF
2017 - G1701MOCCDF

State Agency:	Department of Social Services (DSS) - Children's Division (CD) and Division of Finance and Administrative Services (DFAS)
Type of Finding:	Internal Control (Significant Deficiency)

As noted in our prior audit report,[6] the DSS's procedures to follow up on provider noncompliance identified during Child Care Review Team (CCRT) reviews are not sufficient.

The CCRT is responsible for conducting compliance reviews of child care providers using a risk-based approach to identify and monitor providers determined to be at high risk of noncompliance with Child Care subsidy provider requirements. CCRT staff perform on-site and desk reviews to evaluate provider billing practices, compare attendance records to amounts invoiced, and review facility staffing ratios and fire safety. CCRT staffing levels have varied over the years due to turnover. At June 30, 2017, the CCRT consisted of one manager and three staff. The CCRT completed 576 reviews, including 133 desk reviews and 443 on-site reviews during the year ended June 30, 2017.

When the CCRT identifies provider noncompliance, the provider is required to repay any related overpayments identified; and depending on the severity of the noncompliance, the provider may also (1) be referred to provider training or (2) have its provider contract/agreement terminated. The CCRT notifies the CD if a provider should be referred for training or if a provider's contract/agreement should be terminated. The CD is responsible for contacting the provider with the necessary training or termination information. After a provider attends the required training, the CCRT may conduct a follow-up review. Providers referred to training have 45 days to complete the training. If the provider does not complete the required training timely, CD personnel notify the provider it has 10 to 15 days to complete the training or the provider's contract will be terminated.

The CCRT and the CD have not established criteria or guidance for determining the type and extent of follow-up action, if any, to address identified provider noncompliance. We reviewed documentation supporting 60 CCRT compliance reviews (49 initial reviews and 11 follow-up reviews) finalized during the year ended June 30, 2017. The CCRT determined 42 of these 60 providers were noncompliant. Two of these providers had their provider contracts terminated due to failure to cooperate with the review. Of the remaining 40 reviews, 35 had significant problems including overpayments or significant technical issues and appeared to require follow up to prevent future noncompliance, and 5 had technical issues and further

[6] *State of Missouri Single Audit*, finding number 2016-002B.

follow up did not appear necessary. Our review of cases requiring follow up by the CCRT or the CD noted the following:

- In 16 (15 initial and 1 follow-up) of the 35 (46 percent) reviews that appeared to require follow up, the CCRT required the providers to repay the overpayments, but took no further action to address the provider noncompliance, such as referring the provider to the CD for training or other corrective action, or conducting another follow-up review. The average identified overpayment amount for these 16 providers was $263 for the 2-month period the CCRT reviewed. The overpayment to one of the providers exceeded $1,000. CCRT officials indicated additional follow up was not required for these reviews and that any additional action is at the discretion of CCRT personnel.

- In 10 (5 initial and 5 follow-up) of the 19 (53 percent) reviews in which the provider was referred to the CD for training or other corrective action, the provider did not complete training within the required 45 days and the CD did not follow up timely with the provider or terminate the contract. For 3 of these reviews, including 2 with overpayments over $13,000, the CD was unable to confirm whether the provider ever attended training.

CCRT and CD monitoring of providers serves as a control to ensure provider payments are allowable. Effective September 30, 2016, 45 CFR Section 98.68 requires the DSS to document in its Child Care subsidy state plan that it has effective controls to ensure integrity and accountability in the program. Effective monitoring procedures include adequate follow up and resolution of identified provider noncompliance. The CCRT and the CD should establish procedures to address noncompliant providers and provide for a final resolution of provider compliance. Without continued monitoring of these providers, continued noncompliance and overpayments are likely.

Recommendation

The DSS, through the DFAS and the CD, establish and enforce procedures to ensure proper follow up on noncompliance identified during CCRT reviews is performed. These procedures should include criteria for determining the type and extent of follow-up action that should be taken, and provide for continued monitoring and final resolution of provider compliance.

Auditee's Response

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

2017-012. Child Care Provider Eligibility

Federal Agency:	Department of Health and Human Services
Federal Program:	93.575 Child Care and Development Block Grant 2016 - G1601MOCCDF 2017 - G1701MOCCDF 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

2016 - G1601MOCCDF
2017 - G1701MOCCDF

State Agency:	Department of Social Services (DSS) - Children's Division (CD) and Family Support Division
Type of Finding:	Internal Control (Material Weakness) and Noncompliance
Questioned Costs:	$1,189

As noted in our prior four audit reports,[7] the DSS does not have adequate controls and procedures in place to ensure "four-or-less" child care providers participating in the Child Care and Development Fund (Child Care) subsidy program comply with statutory requirements for license-exempt status. According to Section 210.211.1, RSMo, child care providers are exempt from licensing requirements if they care for four or less unrelated children, known as "four-or-less" (FOL) providers. For some FOL providers reviewed, DSS employees did not follow the department's procedures to ensure the providers do not care for more than four unrelated Child Care subsidy children. As a result, the DSS classified the children as related to their FOL child care providers and made Child Care subsidy payments to the providers without obtaining the required documentation to support the relationships. During the year ended June 30, 2017, the DSS paid 2,774 FOL child care providers approximately $15.9 million for child care services. The DSS paid 922 of these FOL providers to care for a total of more than four children for at least 1 month during the fiscal year.

Child care providers must be licensed, or exempt from licensure by state statute, to participate in the Child Care subsidy program. FOL providers must sign a registration agreement with the CD attesting they understand the health and safety requirements of the program, will comply with such requirements, and will report true and accurate information. Once the FOL provider registers with the DSS, parents/caregivers (clients) participating in the Child Care subsidy program may select the provider to care for their children. FSD Eligibility Specialists (ES) authorize child care for each eligible child by provider in the Family Assistance Management Information System (FAMIS).

In March 2015, the DSS revised its procedures to identify and document provider-children relationships. The DSS Child Care policy requires clients and FOL providers of related children to complete and sign a Child to Provider Relationship form listing and attesting to the relationships between related children and the provider. The policy requires the client provide verification of listed relationships (birth certificates, marriage licenses, etc.) upon request. During the authorization process, the ES enters the

[7] *State of Missouri Single Audit*, finding numbers 2016-001, 2015-003, 2014-006 and 2013-010.

corresponding relationship code into the FAMIS. System edits allow the ES to authorize a maximum of four unrelated children to a FOL provider at a time, and an unlimited number of related children. However, when relationships are not supported by Child to Provider Relationship forms and/or relationship codes are not entered correctly, the system will not prevent child care authorizations and payments to FOL providers caring for more than four unrelated Child Care subsidy children.

Our prior audit (the first audit performed after the Child to Provider Relationship form was fully implemented) found the DSS had not obtained the required forms for most children reviewed; and for almost half of the FOL providers reviewed, the DSS paid for more than a total of four unrelated children and children whose relationship was not supported by a Child to Provider Relationship form. In June 2016, due to concerns regarding the implementation of the Child to Provider Relationship form, the FSD performed a review of applicable case files for the required forms. DSS officials indicated they identified many missing forms, and subsequently obtained the forms when applicable. Effective April 2017, the DSS Child Care policy requires ES to enter a relationship code of unrelated until the Child to Provider Relationship form is received. Also in April 2017, the DSS implemented procedures requiring supervisors to review a daily report of all FOL authorizations processed the previous day and make corrections as needed. Because child care authorizations are often for 12 months, and these reviews only include new authorizations, it will take a year (April 2018) to review all FOL provider authorizations.

We sampled relationship documentation for 60 FOL providers that received payments during the year ended June 30, 2017, to test the department's control and compliance with FOL requirements. We randomly selected 1 service month for each provider to determine if the Child to Provider Relationship form was completed to support the relationship for children coded in the FAMIS as related and if the provider cared for more than four unrelated Child Care subsidy children. Of the 60 providers, 17 were paid to care for related children. These providers were paid to care for 2 to 12 unrelated and related Child Care subsidy children during the month reviewed, a total of 83 children. Of the 83 children, 57 were coded in the FAMIS as related (45 with authorizations before, and 12 with authorizations after, April 2017 when additional controls were implemented).

For 3 of the 17 (18 percent) FOL providers paid to care for the 57 related children, 9 (16 percent) children were coded in the FAMIS as related, but the relationship was not supported by a Child to Provider Relationship form signed at the time of the child care authorization. The authorizations for each of these children were before April 2017 when the DSS implemented daily supervisory reviews of FOL authorizations. Of the 17 providers, 1 (6 percent) was paid for more than a total of four unrelated children and children whose relationships were not supported by Child to Provider Relationship forms. Without obtaining the required forms, the DSS did not perform required procedures to verify relationships and ensure these providers complied with child care licensing laws regarding number of children served. The DSS paid this provider $1,524 for caring for 7 children during the month. Authorizations for 6 of these children ended after the test month and there were no subsequent payments to the provider for these children. We question the federal share of the total payments when the provider cared for more than four unrelated or unverified children during the year ended June 30, 2017. We question the federal share, or $1,189 (77.99 percent).

An eligible child care provider is defined by 45 CFR Section 98.2 as a provider for child care services for compensation that is licensed, regulated, or registered under applicable state or local law and satisfies state and local requirements, including health and safety requirements. As described in the Child Care subsidy state plan, Section 210.211.1, RSMo, states it is unlawful for any person to establish, maintain, or operate a child care facility without a valid license issued by the Missouri Department of Health and Senior Services unless the provider meets one of the listed exemptions. Section 210.211.1(1), RSMo, exempts from licensure any person who is caring for four or fewer unrelated children. Children related to the provider by blood, marriage, or adoption within the third degree are not considered in the total number of children being provided care.

In January 2017, the Department of Health and Human Services, Administration for Children and Families (ACF), Office of Child Care issued a decision letter stating it concurred with our year ended June 30, 2015, audit finding and the DSS had not fully implemented corrective actions to address the repeating finding. The ACF further required, beginning in the quarter ended March 31, 2017, the DSS to provide quarterly updates of corrective actions taken and planned until the issues are resolved. The DSS's quarterly corrective action updates for March and June 2017 indicated the department implemented system changes in FAMIS, implemented reviews of daily reports of FOL providers, and continues to review procedures.

In addition to noncompliance with state and federal laws, the failure to follow established controls to obtain Child to Provider Relationship forms can result in child care services provided by, and payments made to, ineligible providers. Federal regulation 45 CFR Section 98.11 requires the state to ensure the Child Care subsidy program complies with the approved state plan and federal requirements. Effective September 30, 2016, 45 CFR Section 98.68 requires the DSS to document in its Child Care subsidy state plan that it has effective controls to ensure integrity and accountability in the program. To ensure controls are effective, the DSS needs to continue to review, strengthen, and enforce policies and procedures to ensure clients and FOL providers comply with DSS policy and state law. These procedures should ensure adequate receipt of, and proper recording of information on, Client to Provider Relationship forms in the FAMIS as required by DSS policy.

Recommendation

The DSS through the CD and the FSD continue to improve controls and procedures to ensure clients and FOL child care providers participating in the Child Care subsidy program comply with DSS policy, and FOL providers comply with state licensing requirements.

Auditee's Response

We disagree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement.

Auditor's Comment

The DSS disagrees with the finding because the DSS believes no further improvements to controls are possible and no corrective action is needed. The DSS's new control of supervisory review of all new authorizations was implemented in April 2017. This control was only in effect during the last 3 months of our audit period and will not be fully effective until April 2018 when all new authorizations since implementation have been reviewed. As stated in the finding, the authorizations for each of the 9 unsupported relationships noted during our audit were before April 2017. During the audit, DSS officials confirmed these relationships were not supported by the required Child to Provider Relationship form signed at the time of the child care authorization; therefore, this finding remains valid. Future audits that cover periods after the new control is fully or substantially implemented will evaluate the adequacy and effectiveness of the new control.

The DSS's Corrective Action Plan also indicates the DSS does not agree with our classification of the finding as a material weakness and a finding of noncompliance. Our decisions regarding the classification of the internal control deficiencies were made in accordance with AU-C Section 935, *Compliance Audits* and the *Audit Guide Government Auditing Standards and Single Audits*, published by the AICPA. The Audit Guide adapts and applies the guidance in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*, to a Uniform Guidance audit. The Audit Guide paragraph 9.47 provides the following definitions regarding internal control deficiencies: a *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. The control tested (the existence of the Child to Provider Relationship form) is the DSS's only key control over child-provider relationships. Because the forms were not on file for 16 percent of the relationships reviewed and payments to FOL providers are material to the program (over $15 million during the year), there is a reasonable possibility that material noncompliance was not prevented, or detected and corrected, on a timely basis during the audit period.

The finding is classified as noncompliance because our testing of support for provider relationships found one provider was paid to care for more than four children whose relationships were not supported by the Child to Provider Relationship forms.

2017-013. MO HealthNet Division Provider Eligibility

Federal Agency:	Department of Health and Human Services
Federal Program:	93.767 Children's Health Insurance Program 2015 - 1505MO5021 2016 - 1605MO5021 93.778 Medical Assistance Program 2016 - 1605MO5MAP and 1605MO5ADM 2017 - 1705MO5MAP and 1705MO5ADM
State Agency:	Department of Social Services (DSS) - MO HealthNet Division (MHD) and Missouri Medicaid Audit and Compliance (MMAC)
Type of Finding:	Internal Control (Material Weakness) and Noncompliance
Questioned Costs:	$223,188,969

As noted in our prior audit report,[8] the DSS did not fully implement federal revalidation requirements for providers participating in the Medical Assistance Program (Medicaid) and the Children's Health Insurance Program (CHIP). As of June 30, 2017, the DSS had not performed required revalidations for 71 percent of Medicaid and CHIP providers requiring revalidation. There were approximately 57,900 Medicaid and CHIP providers enrolled as of June 30, 2017.

To enroll in the Medicaid and CHIP programs, providers of medical services apply to the MMAC Provider Enrollment Unit, which is responsible for determining the eligibility of Medicaid and CHIP providers and performing eligibility revalidations. Federal regulation 42 CFR Section 455.412[9] specifies the enrollment screening (eligibility determination) requirements. Provider revalidations are performed in the same manner as enrollment screenings.

Federal regulation 42 CFR Section 455.414[9] established additional requirements regarding provider eligibility, requiring states to revalidate the eligibility of all Medicaid and CHIP providers, regardless of provider type, at least every 5 years. Sub-regulatory Guidance published by the Centers for Medicare and Medicaid Services (CMS) on December 23, 2011, required

[8] *State of Missouri Single Audit*, finding number 2016-003A.

[9] Federal regulation 42 CFR Section 457.990 requires the same enrollment and revalidation requirements for CHIP providers as Medicaid providers, established at 42 CFR Part 455, subpart E, which includes Sections 455.412 and 455.414.

implementation of the new revalidation requirements by September 24, 2016; specifically revalidations for all providers enrolled on or before September 25, 2011, were to be completed by September 24, 2016. In addition, the CMS issued the Medicaid Provider Enrollment Compendium on January 4, 2017, to clarify how states are expected to comply with the federal regulations. To implement the new requirements, the DSS established state regulation 13 CSR Section 65-2.020, which gave the DSS authority to implement provider revalidations, effective July 30, 2014; and contracted with a vendor to modify the provider enrollment system for revalidations. The system modifications were finalized July 1, 2016. MMAC Provider Enrollment Unit personnel began manually performing revalidations in April 2015, and began using the system in the revalidation process in July 2016.

As explained in our prior audit report, the DSS established procedures for performing revalidations, but as of September 24, 2016, the revalidations had not been performed for 87 percent of the Medicaid and CHIP providers requiring revalidation. According to DSS reports, as of June 30, 2017, there were approximately 33,200 active providers enrolled in the Medicaid and CHIP on or before June 30, 2012, that required revalidation. At that time, the MMAC had completed revalidations for approximately 9,700 providers, but had not completed revalidations for the remaining 23,500 providers (71 percent). DSS officials indicated the backlog of revalidations continued to occur because of difficulties associated with the system modifications and shortages of staff to handle the volume of revalidations and new enrollments. MMAC officials indicated they plan to have all revalidations completed and on a rotational 5-year schedule by December 31, 2019.

We tested 43 providers paid during the year ended June 30, 2017, to test compliance with federal revalidation requirements. We determined revalidations had not been completed for all 43 providers selected. As a result, the DSS did not comply with federal regulations established to ensure these providers continued to meet the requirements to participate in these programs. Medicaid and CHIP payments made to these 43 providers during the period of September 25, 2016 to June 30, 2017, totaled $347,483,994. We question the federal share, or $223,188,969 (64.23 percent).

In addition to noncompliance with federal regulations, the failure to follow established controls to perform revalidations can result in medical services performed by, and payments made to, ineligible providers. Federal regulation 2 CFR Section 200.303 requires the non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

Recommendation

The DSS through the MHD and MMAC revalidate Medicaid and CHIP providers every 5 years as required by federal regulations.

Auditee's Response

We partially agree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement and any planned actions to address the finding.

Auditor's Comment

The DSS Corrective Action Plan indicates the DSS agrees the revalidations were not performed as required but disagrees the DSS had not ensured providers continued to meet eligibility requirements. Specifically, the CAP states the DSS "strongly disagrees that DSS had not ensured these providers continued to meet the eligibility requirements to participate in Missouri Medicaid programs," and in reference to the revalidations not performed, "it is inaccurate to state it resulted in a lack of assurance of overall provider eligibility." However, the finding does not question the DSS's overall procedures to ensure eligibility of providers, but focuses on compliance with the federal regulation requiring revalidation of providers. The DSS agreed all 43 providers tested had not been revalidated as required; therefore, this finding remains valid.

2017-014. MO HealthNet Division Cash Receipt Controls

Federal Agency:	Department of Health and Human Services	
Federal Program:	93.767	Children's Health Insurance Program 2015 - 1505MO5021 2016 - 1605MO5021
	93.778	Medical Assistance Program 2016 - 1605MO5MAP and 1605MO5ADM 2017 - 1705MO5MAP and 1705MO5ADM
State Agency:	Department of Social Services (DSS) - MO HealthNet Division (MHD)	
Type of Finding:	Internal Control (Material Weakness)	

As similarly noted in our prior two audit reports,[10] the MHD did not have adequate controls in place to ensure the proper management of receipts received by the division, which totaled approximately $1 billion during the year ended June 30, 2017. Approximately $699 million of this amount (69 percent) was received by the MHD in the form of checks, money orders, and cash. The remaining amount was received through a contractor lockbox. These receipts include monies received from participants, providers, and insurance companies for items such as premiums, reimbursements, and taxes related to the Medical Assistance Program (Medicaid) and the Children's Health Insurance Program (CHIP).

[10] *State of Missouri Single Audit*, finding numbers 2016-004A&C and 2015-009A&C.

The MHD Financial Services Unit receives monies, posts the receipts to the Medicaid Management Information System (MMIS), and prepares deposits. MHD program staff apply the receipts to the applicable accounts receivable balances in the MMIS. For receipts received through a lockbox, a contractor posts and applies these receipts to accounts receivable balances in the MMIS and prepares the deposits.

The MHD does not adequately restrict user access within the cash receipts and accounts receivable modules of the MMIS. The Fiscal and Administration Manager Band 1 and the Accountant III continue to have the ability to record and delete receipts and update or close the related accounts receivable in the MMIS. In addition, there was no documented independent or supervisory review of the MMIS entries and changes made by these employees during the year ended June 30, 2017, which increases the risk of misappropriation. MHD officials indicated these two employees need full access to the MMIS in case of unit employee absences or turnover. The Summary Schedule of Prior Audit Findings for prior audit finding number 2016-004C indicated a regular report of instances for which transactions were entered and approved by the same user has been and will be ordered and reviewed; however, such a report was not created until January 2018, after the current audit period. In addition, the Summary Schedule of Prior Audit Findings for prior audit finding number 2016-004A indicated additional policies have been instituted to ensure cash control numbers are not deleted and the accuracy of the cash control number log is verified. However, such procedures, which include monitoring deleted cash control numbers and removing the ability to delete cash control numbers, were not performed until we made inquiries after the current audit period.

Proper segregation of duties for user access in the MMIS should separate duties involving the recording and deletion of receipts and modification of accounts receivable records. If proper segregation of duties cannot be achieved, it is essential to document independent or supervisory reviews of MMIS entries and changes made by employees whose duties are not segregated.

Federal regulation 2 CFR Section 200.303 requires the non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States and the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission." The *Standards for Internal Control in the Federal Government*, also known as the Green Book, provides 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.

Recommendation

The DSS through the MHD continue to restrict user access within the MMIS and adequately segregate duties related to record keeping and asset custody, or perform documented supervisory reviews of MMIS entries and changes.

Auditee's Response

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

2017-015. Medicaid Physician-Administered Drugs

Federal Agency:	Department of Health and Human Services (DHHS)
Federal Program:	93.778 Medical Assistance Program 2016-1605MO5MAP and 1605MO5ADM 2017-1705MO5MAP and 1705MO5ADM
State Agency:	Department of Social Services (DSS) - MO HealthNet Division (MHD)
Type of Finding:	Internal Control (Significant Deficiency) and Noncompliance
Questioned Costs:	$242,656

As noted in a prior audit report,[11] the MHD did not establish controls to comply with Medical Assistance Program (Medicaid) requirements to invoice prescription drug manufacturers for rebates for certain physician-administered drugs. As a result, the MHD claimed costs of physician-administered drugs that were not allowable costs of the program because rebates were not billed for the drugs.

The Deficit Reduction Act of 2005 amended section 1927 of the Social Security Act to address rebates for physician-administered drugs, which are medications administered by a physician in an outpatient hospital setting. Effective January 2008, the Social Security Act, 42 USC Section 1396r-8(a)(7) requires states to capture drug utilization data using National Drug Codes (NDCs), for single-source and top-20 multiple-source drugs from the provider when the claim is submitted to the state. As required by 42 USC Section 1396r-8, NDCs are used to identify and bill the drug manufactures for rebates for applicable drug purchases. Federal regulation 42 CFR Section 447.520 prohibits federal reimbursement for physician-administered drugs for which the state has not required the submission of claims using NDCs to identify the drugs. Based on data from manufacturers, the Department of Health and Human Services - Centers for Medicare and Medicaid Services

[11] *State of Missouri Single Audit,* finding number 2015-010.

(CMS) calculates a per-unit rebate amount states can bill for each drug administered. The states are required to report the applicable drug utilization information by NDC to the manufacturers and bill the manufacturers quarterly for the drug rebate amounts. States are required by 42 USC Section 1396r-8 to offset the Medicaid prescription drug claims by the rebate amounts.

Our state fiscal year 2015 audit reported many providers did not provide the required NDCs when they submitted physician-administered drug claims through the Medicaid Management Information System (MMIS), and the MHD had not modified the MMIS to deny claims that lacked this data. Subsequent audits found the MHD established controls to ensure claims include the required NDCs and are allowable Medicaid and Children's Health Insurance Program costs. However, our testing found these new controls and procedures were not implemented for certain physician-administered drug claims for participants of the Medicaid "Gateway to Better Health" waiver. In addition, the MHD did not recoup or reimburse the DHHS for some physician-administered drug claims the MHD identified as incorrectly submitted without the required NDCs.

- For the year ended June 30, 2017, the MHD paid $239,540 for physician-administered drug claims submitted without NDCs for participants of the Medicaid "Gateway to Better Health" waiver. Because these claims lacked the required NDCs, the MHD could not bill the prescription drug manufacturers for rebates as required by federal regulations. Therefore, these claims were not allowable for federal reimbursement. We question the federal share, or $151,437 (63.22 percent).

- MHD personnel identified some physician-administered drug claims, totaling $144,152, incorrectly submitted as procedural claims (which do not include NDCs) from July through October 2016. The MHD identified the erroneous claims and modified the MMIS to prevent the submission of physician-administered drug claims as procedural claims, thereby ensuring NDCs are submitted as required. However, the MHD did not recoup these identified improper payments or reimburse the DHHS for the unallowable costs. We question the federal share, or $91,219 (63.28 percent).

Federal regulation 2 CFR Section 200.303 requires the non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." Such controls should ensure NDCs are collected for all physician-administered drug claims, prescription drug manufacturers are billed for rebates, and only allowable costs are claimed for federal reimbursement. In addition, controls should be established to recoup and reimburse the DHHS for claims identified as noncompliant.

Recommendation

The DSS through the MHD continue to establish controls to ensure the required drug utilization data is obtained for all physician-administered drug claims and claim only allowable costs for the Medicaid. These controls should include procedures to recoup and reimburse the DHHS for claims identified as noncompliant.

Auditee's Response

We disagree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement.

Auditor's Comment

Regarding the first bullet point in the finding, the DSS's Corrective Action Plan (CAP) states the DSS disagrees with the finding because physician-administered drug claims for the Medicaid "Gateway to Better Health" waiver are reimbursed by an alternate payment methodology established at 100 percent of Medicare rates, in accordance with federally-approved terms and conditions. Because Medicare does not collect drug rebates, the DSS contends the NDCs are not included on claims and rebates are not billed. However, in our review of documents provided by the DSS supporting this position, the DSS could not demonstrate the drug rebate requirement does not apply to this waiver program. Therefore, this finding is still valid.

Regarding the second bullet point in the finding, the CAP indicates no disagreement with the finding, but states the DSS disagrees with our recommendation to recoup and reimburse the DHHS for claims identified as noncompliant. The MHD determined it would not be cost-effective to require the collection of the NDCs for the small amount of these claims. Because the MHD did not recoup or reimburse the DHHS for the claims incorrectly submitted without the required NDCs, this finding is still valid.

2017-016. Medicaid Aged, Blind, and Disabled Eligibility

Federal Agency:	Department of Health and Human Services
Federal Program:	93.778 Medical Assistance Program 2016 - 1605MO5MAP and 1605MO5ADM 2017 - 1705MO5MAP and 1705MO5ADM
State Agency:	Department of Social Services (DSS) - MO HealthNet Division (MHD) and Family Support Division (FSD)
Type of Finding:	Internal Control (Significant Deficiency)

As similarly noted in our prior three audit reports,[12] the DSS does not ensure monthly supervisory call reviews are completed as required for call center employees who perform eligibility determinations for aged, blind, and

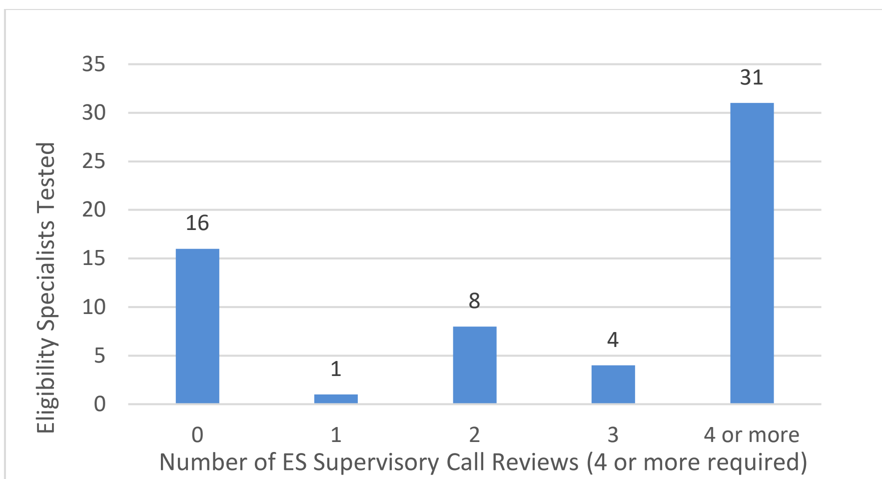
[12]*State of Missouri Single Audit,* finding numbers 2016-005, 2015-012A, and 2014-013A.

disabled individuals in the Medical Assistance Program (Medicaid). The MO HealthNet for the Aged, Blind and Disabled (MHABD) are Medicaid-funded programs administered by the MHD. Approximately 236,000 of the approximately 1 million Medicaid participants as of June 30, 2017, were MHABD participants.

FSD eligibility specialists (ES) located in processing centers and call centers, and their supervisors, are responsible for determining the eligibility of MHABD participants. Call center ES receive calls and provide support for various DSS programs, including performing eligibility determinations for some MHABD participants. FSD officials estimated 10 percent of the 570 ES working in call centers perform eligibility determinations. Call center supervisors are required to perform monthly supervisory reviews of calls to ensure compliance with federal eligibility requirements and to verify information is properly and accurately entered into the Family Assistance Management Information System (FAMIS). On January 1, 2016, the DSS issued a policy requiring call center supervisors to complete 4 reviews of calls handled by each ES monthly. The results of the supervisory reviews are used to train ES.

We sampled 60 call center ES[13] to test the DSS's call review control and compliance with DSS policy. We randomly selected 1 month for each call center ES sampled. Documentation was not maintained to support required supervisory call reviews for 29 of 60 (48 percent) ES reviewed. Figure 1 shows the number of supervisory call reviews performed in the month selected for the 60 call center ES tested.

Figure 1: Number of ES supervisory call reviews during the month tested



[13] We selected the sample from the population of all call center ES instead of from the population of call center ES who perform eligibility determinations because the DSS does not maintain a list of ES who perform eligibility determinations.

DSS officials indicated reviews were likely performed as required, but documentation of some reviews could not be located due to supervisor turnover and the lack of a record retention policy. Supervisors were responsible for keeping records of reviews they performed, and the DSS did not monitor the process to ensure records were maintained. Without documentation, it is unclear if the reviews had actually been performed.

Federal regulation 2 CFR Section 200.303 requires the non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." When supervisory call reviews are not performed as required, the department's established controls to ensure compliance with eligibility requirements are diminished, and there is decreased assurance eligibility determinations are accurate and an increased risk of errors going undetected. To demonstrate and ensure internal controls are effective, supervisory call reviews should be documented and monitored for compliance with DSS policy.

Recommendation

The DSS through the MHD and the FSD ensure supervisory call reviews are performed and documented as required by DSS policy.

Auditee's Response

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

2017-017. Medicaid Developmental Disabilities - Comprehensive Waiver Per Diem Rates

Federal Agency:	Department of Health and Human Services
Federal Program:	93.778 Medical Assistance Program 2016-1605MO5MAP and 1605MO5ADM 2017-1705MO5MAP and 1705MO5ADM
State Agency:	Department of Mental Health (DMH) - Division of Developmental Disabilities (DD)
Type of Finding:	Noncompliance
Questioned Costs:	$416,966

As noted in our prior two audit reports,[14] the DD did not retain documentation to support the per diem rates paid to some providers for residential habilitation services provided to participants of the Home and Community Based Services (HCBS), Developmental Disabilities Comprehensive Waiver (Comprehensive Waiver) program. As a result, the DD could not demonstrate amounts paid to some providers were allowable costs of the Comprehensive Waiver Program.

[14] *State of Missouri Single Audit,* finding numbers 2016-006 and 2015-015.

The DD with its 11 regional offices is responsible for the direct administration of various Medical Assistance Program (Medicaid)-funded HCBS programs for children and adults with disabilities, including the Comprehensive Waiver program. Various types of services are allowed under the waiver, including residential habilitation services provided to 1,848 participants in group homes and 4,713 participants served by individualized supported living (ISL) providers during the year ended June 30, 2017. Residential habilitation services include care, supervision, and skills training in activities of daily living, home management, and community integration. Providers are paid a per diem rate for each participant receiving these services, based on the individual's needs. Certain costs, such as room and board, are not allowed to be included in per diem rates under the waiver program.

Prior to October 2013, residential habilitation services per diem rates were established for all providers (historical per diem rates); however, the DD did not retain documentation of how these rates were determined or what costs were included in the rates. In October 2013, the DD began implementation of a new acuity-based system for establishing individualized per diem rates for each participant based on various factors including the participant's rate allocation score, which measures participant needs and market-based costs of services. To address prior audit findings regarding unsupported historical per diem rates, in December 2016, the DMH received a residential rate study from an outside vendor with updated acuity-based per diem rates. These updated rates are being phased in to replace existing acuity-based and historical per diem rates. The DD officials indicated the updated rates should be mostly implemented within the next few years. For participants that received residential habilitation services during the year ended June 30, 2017, DD officials indicated the DMH paid acuity-based per diem rates for approximately half the participants and historical per diem rates for the other half. During the year ended 2017, per diem payments for group home services totaled approximately $143 million, and per diem payments for ISL services totaled approximately $490 million.

To test compliance with various Comprehensive Waiver program requirements, we tested 60 payments to service providers during the year ended 2017. Of these 60 payments, 34 were to ISL providers and 15 were to group homes for habilitation services. The DD did not retain documentation to support per diem rates, paid at historical rates, for 7 of the 34 ISL habilitation service payments tested. The only documentation retained by the DD was the cost of living allowance (COLA) notices supporting some per diem rate increases. These notices did not support the various costs included in the per diem rates, and the DD did not retain documentation to support the original rates. The remaining 27 ISL and 15 group home payments were based on acuity-based per diem rates or historical rates that were less than or equal to acuity-based rates. Payments to providers for habilitation services provided to the 7 participants during the year ended June 30, 2017, for which the historical per diem rates were not supported or exceeded acuity-based rates, totaled $663,641. We question the federal share, or $416,966 (62.83 percent).

Audits performed by the federal Department of Health and Human Services (DHHS) - Office of Inspector General (OIG), *Missouri Claimed Unallowable and Unsupported Medicaid Payments for Group Home Habilitation Services*, released in August 2015, and *Missouri Claimed Unallowable and Unsupported Medicaid Payments for Individualized Supported Living Habilitation Services*, released in March 2016, noted similar concerns with unsupported per diem rates for some group home payments and noted some ISL payments included unapproved and unallowable costs. The DHHS-OIG audits also determined several per diem rates that were supported by adequate documentation included room and board costs, which are not allowable under the Comprehensive Waiver program.

Without proper documentation of the payment rates, the DD cannot demonstrate that payments based on these rates are proper and only include allowable costs. Federal regulation 42 CFR Section 447.203(a) states "The agency must maintain documentation of payment rates. . . ." Federal regulation 2 CFR Section 200.403(g) states costs must be adequately documented to be allowable. Also, the approved DD Comprehensive Waiver Program Application, Appendix I: Financial Accountability, section I-2(e), states "Records documenting the audit trail of adjudicated claims (including supporting documentation) are maintained by the Medicaid agency, the operating agency (if applicable), and providers of the waiver services for a minimum period of 3 years as required in 45 CFR [section] 92.42." Adequate documentation of habilitation services per diem rates is necessary to ensure compliance with the federal requirements related to the Comprehensive Waiver program and to ensure only allowable costs are included in the per diem rates.

Recommendation

The DMH through the DD ensure documentation to support habilitation services per diem rates is maintained to support Comprehensive Waiver program payments for these services as required, and ensure the rates only include allowable costs.

Auditee's Response

We disagree with the auditor's finding. Our Corrective Action Plan includes an explanation and specific reasons for our disagreement.

Auditor's Comment

The DMH Corrective Action Plan states the DMH disagrees with the finding because the OIG, in the audit released in March 2016, accepted the ISL budgets supporting the historical rates reviewed as sufficient documentation to support the per diem rates. However, as noted in our audit finding, the documentation provided by the DMH to support the rates for the 7 payments in question during our audit did not show how those rates were determined or what costs were included in the rates. Federal regulations require such documentation. During the audit, DMH officials confirmed they had not retained documentation to support the various costs included in the original per diem rates for these 7 payments; therefore, this finding remains valid.

Additional State Auditor's Reports

The Missouri State Auditor's Office regularly issues audit reports on various programs, agencies, and divisions of the state of Missouri. Audit reports may include issues relating to the administration of federal programs. We reviewed the reports issued from April 2017 to March 2018 and noted there were no reports that relate to a federal program and were required to be reported in the Schedule of Findings and Questioned Costs in accordance with the Uniform Guidance.

The Uniform Guidance requires the auditee to prepare a Summary Schedule of Prior Audit Findings to report the status of all audit findings included in the prior audit's Schedule of Findings and Questioned Costs. The schedule is also to report the status of findings included in the prior audit's Summary Schedule of Prior Audit Findings, except those that were corrected, no longer valid, or not warranting further action.

The Uniform Guidance requires the auditor to follow up on prior audit findings; perform procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings; and report, as a current year audit finding, when the auditor concludes the schedule materially misrepresents the status of any prior audit finding.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

The Uniform Guidance requires the auditee to prepare a Summary Schedule of Prior Audit Findings to report the status of all audit findings included in the prior audit's Schedule of Findings and Questioned Costs. The Schedule is also to report the status of findings included in the prior audit's Summary Schedule of Prior Audit Findings, except those that were corrected, no longer valid, or not warranting further action.

The attached documents are the Summary Schedule of Prior Audit Findings for the year ended June 30, 2017, and includes all findings from the audit for the Fiscal Years ended June 30, 2016, and certain similar findings from the audits for the Fiscal Years ended June 30, 2015, 2014, 2013, 2012, 2011, and 2010.

These documents were prepared by the applicable State agencies as noted with each prior year finding.

2016-001. Child Care Provider Eligibility

Federal Agency: Department of Health and Human Services
Federal Program: 93.575 Child Care and Development Block Grant
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
State Agency: Department of Social Services (DSS) - Children's Division (CD) and Family Support Division (FSD)
Questioned Costs: $15,145 (2016)
Similar Findings: 2015-003, 2014-006, and 2013-010

The DSS did not have adequate controls and procedures in place to ensure "four-or-less" (FOL) child care providers participating in the Child Care Development Fund (Child Care) subsidy program complied with statutory requirements for license-exempt status. For most children reviewed, DSS employees did not follow the department's recently revised procedures to ensure FOL providers do not care for more than four unrelated Child Care subsidy children. As a result, the DSS classified the children as related to their FOL child care providers and made Child Care subsidy payments to the providers without obtaining the required documentation to support the relationships.

Recommendation:
The DSS through the CD and the FSD improve controls and procedures to ensure clients and FOL child care providers participating in the Child Care subsidy program comply with DSS policy and FOL providers comply with state licensing requirements.

Status of Findings:
The FSD receives a daily report that lists all 4-or-less authorizations from the day before. A supervisor at the Temporary Assistance/Child Care Processing Center corrects any case actions that are not completed following correct policy and/or documentation is not adequate. This list is sent to all managers on a weekly basis to share findings. FSD also keeps a master list to track if a particular office or Eligibility Specialists has a training need and advise the manager of these findings. FSD will continue to monitor to ensure policy is followed.

Contact Person: Marianne Dawson
Phone Number: 573-522-2294

2016-002A. Child Care Eligibility and Payments

Federal Agency: Department of Health and Human Services
Federal Program: 93.575 Child Care and Development Block Grant
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
State Agency: Department of Social Services (DSS) - Children's Division (CD), Family Support Division (FSD), and Division of Finance and Administrative Services
Questioned Costs: $5,100 (2016)
Similar Findings: 2015-002, 2014-005, 2013-009, 2012-11A&B, 2011-14A, and 2010-16A

The DSS controls over Child Care Development Fund (Child Care) subsidy eligibility and provider payments were not sufficient to prevent and/or detect payments made on behalf of ineligible clients or improper payments to child care providers. Payments were made on behalf of some ineligible clients and overpayments were made to some providers.

Recommendation:
The DSS through the CD and the FSD, continue to review, strengthen and enforce policies and procedures regarding Child Care subsidy eligibility determinations, authorizations, and provider payments. These procedures should include sufficient monitoring of eligibility determinations, authorizations, and provider payments, and follow-up on errors identified.

Status of Findings:
The DSS continues to review and strengthen policies and procedures regarding child care eligibility determinations and child and provider payments.

The updated eligibility and authorization manual outlines changes that will eliminate the error for a client to be over-authorized because of a change in status through the eligibility period.

FSD began to follow the new process outlined in Memorandum OEC-6 for case review actions completed in April and May 2017. Monitoring is in place to ensure objectives are met and areas of strength or deficiency are addressed. Targeted reviews completed in April and May were evaluated and identified a training need. FSD training created an online training course that was to be completed by all staff who determine childcare eligibility. FSD continues to follow the processes outlined in Memorandum OEC-6 for case reviews.

To address documentation for payments to child care providers, the DSS issued a contract for an electronic time and attendance system on September 28, 2017.

Contact Person: Marianne Dawson
Phone Number: 522-2294

2016-002B. Child Care Eligibility and Payments

Federal Agency: Department of Health and Human Services
Federal Program: 93.575 Child Care Development Block Grant
93.596 Child are Mandatory and Matching Fund of the Child Care and Development Fund
State Agency: Department of Social Services (DSS) - Children's Division (CD), Family Support Division (FSD), and Division of Finance and Administrative Services

The DSS' procedures to follow up on provider non-compliance identified during Child Care Review Team (CCRT) reviews were not sufficient. For some follow up reviews, the CCRT determined the providers continued to be non-compliant and received overpayments; but took no further action to address the continued non-compliance, such as requiring the provider to implement corrective action or conducting another follow-up review.

Recommendation:
The DSS through the CD, establish procedures to address continued provider non-compliance identified during CCRT reviews.

Status of Finding:
The CD has promulgated rules to address new child care provider requirements. CD will be reviewing its processes for follow up with CCRT regarding compliance issues noted during reviews to ensure child care providers are held accountable to comply with their contracts.

Contact Person: Marianne Dawson
Phone Number: 522-2294

2016-003A. MO HealthNet Division Provider Eligibility

Federal Agency: Department of Health and Human Services
Federal Program: 93.767 Children's Health Insurance Program
93.778 Medical Assistance Program
State Agency: Department of Social Services (DSS) - MO HealthNet Division (MHD) and Missouri Medicaid Audit and Compliance (MMAC)

The DSS did not fully implement federal revalidation requirements for providers participating in the Medical Assistance Program (Medicaid) and the Children's Health Insurance Program (CHIP). The DSS had significant backlogs of provider revalidations that had not been completed as required.

Recommendation:
The DSS through the MHD and the MMAC ensure Medicaid and CHIP provider revalidations are completed every 5 years as required.

Status of Finding:
DSS has revalidated 12,170 providers out of 32,521 requiring revalidation per 42 CFR 455.414. The providers that have gone through the revalidation process thus far have shown zero instances of any improper billing. MMAC has had numerous communications with CMS regarding this issue and has a timeline in place by which to complete all enrolled provider revalidations. MMAC will have all revalidations done and up to date on a rotational five year schedule by December 31, 2019.

Contact Person: Dale Carr
Phone Number: (573) 751-5296

2016-003B. MO HealthNet Division Provider Eligibility

Federal Agency: Department of Health and Human Services
Federal Program: 93.767 Children's Health Insurance Program
93.778 Medical Assistance Program
State Agency: Department of Social Services (DSS) - MO HealthNet Division (MHD) and Missouri Medicaid Audit and Compliance (MMAC)

The DSS did not timely review and follow up on Missouri Division of Professional Registration provider reports to determine if the providers continued to meet licensure requirements and remained eligible to participate in the Medical Assistance Program (Medicaid) and Children's Health Insurance Program (CHIP). The DSS had significant backlogs of identified provider licensure issues that had not been reviewed.

Recommendation:
The DSS through the MHD and the MMAC timely review and follow up on reports of identified provider licensure issues to ensure Medicaid and CHIP providers remain eligible to receive program payments.

Status of Finding:
DSS did follow up on the reports provided by Professional Registration during the audit period. DSS was not notified by Professional Registration of 14 providers with expired licenses and had begun the termination process for another 21 of the providers. The remaining providers had minor keying errors in MMIS which resulted in their being missed in the review process.

The risk that an improper payment will be made to a pharmacy with an expired license is mitigated significantly because Professional Registration is also monitoring expired licensees to ensure they are no longer operating. As noted in the audit, no payments were made to the 39 pharmacies with expired licenses.

MMAC is working with the MMIS Vendor and one of their subcontractors to receive more detailed screening and monitoring results on the licenses for applying or enrolled health care providers.

DSS continues to allocate its scarce resources to most effectively ensure the integrity of the Medicaid/CHIP program.

Contact Person: Dale Carr
Phone Number: (573) 751-5296

2016-004A. MO HealthNet Division Receipt Controls

Federal Agency: Department of Health and Human Services
Federal Program: 93.767 Children's Health Insurance Program
93.778 Medical Assistance Program
State Agency: Department of Social Services (DSS) - MO HealthNet Division (MHD)
Similar Finding: 2015-009A

The MHD's reconciliations of cash control numbers to deposits and monies on hand were not sufficient to account for all cash control numbers to ensure all Medical Assistance Program and Children Health Insurance Program monies received were properly deposited or returned to senders.

Recommendation:
The DSS through the MHD continue to review, strengthen, and enforce controls to ensure all receipts are deposited or returned to senders.

Status of Findings:
MHD current procedures account for monies received daily through established processes in order to ensure all receipts are properly accounted for. Additional policies have been instituted to ensure that cash control numbers are not deleted, and accuracy of the cash control number log is verified.

Contact Person: Jeremiah Harcourt
Phone Number: (573) 751-8985

2016-004B. MO HealthNet Division Receipt Controls

Federal Agency: Department of Health and Human Services
Federal Program: 93.767 Children's Health Insurance Program
93.778 Medical Assistance Program
State Agency: Department of Social Services (DSS) - MO HealthNet Division (MHD)
Similar Finding: 2015-009B

The MHD did not restrictively endorse money orders immediately upon receipt.

Recommendation:
The DSS through the MHD establish controls to restrictively endorse money orders immediately upon receipt.

Status of Findings:
MHD's policy is to wait one business day before endorsing all money orders. As stated in previous audits, money orders when endorsed must be deposited. On average five money orders a day are returned to the sender. If MHD endorses the money order without review, a refund check would need to be issued for money orders received in error. This would further elongate the process of financial restoration to the most in need citizens of the state.

Contact Person: Jeremiah Harcourt
Phone Number: (753) 751-8985

2016-004C. MO HealthNet Division Receipt Controls

Federal Agency: Department of Health and Human Services
Federal Program: 93.767 Children's Health Insurance Program
93.778 Medical Assistance Program
State Agency: Department of Social Services (DSS) - MO HealthNet Division (MHD)
Similar Finding: 2015-009C

The MHD did not adequately restrict user access within the cash receipts and accounts receivable modules of the Medicaid Management Information System (MMIS).

Recommendation:
The DSS through the MHD restrict user access within the MMIS and adequately segregate duties related to record keeping and asset custody, or ensure documented supervisory reviews of MMIS entities and changes are performed.

Status of Findings:
MHD has segregation of duties and user access is restricted on varying levels for the Account Clerks, Medicaid Clerks and Accountant I's in the unit. Only the Accountant III and Fiscal Band Manager or Supervisor of the unit has full access. Full access for these roles is needed to ensure operations continue to function timely in the event of absences and turnover. A Medical Management Information Systems report has been and will be regularly ordered and reviewed identifying any instances where transactions were entered and approved by an individual.

Contact Person: Jeremiah Harcourt
Phone Number: (573) 751-8985

2016-005. Medicaid Aged, Blind and Disabled Eligibility

Federal Agency: Department of Health and Human Services
Federal Program: 93.778 Medical Assistance Program
State Agency: Department of Social Services (DSS) - MO HealthNet Division (MHD) and Family Support Division (FSD)
Similar Findings: 2015-012A and 2014-013A

The DSS did not ensure monthly supervisory case reviews for MO HealthNet for the Aged, Blind, and Disabled (MHABD) participants were completed as required.

Recommendation:
The DSS through the MHD and the FSD follow established DSS policy to ensure monthly supervisory case reviews of MHABD cases are performed.

Status of Findings:
In order to ensure case reviews are regularly completed and to assure eligibility determinations are accurate, FSD issued policy EMAIL-IM-#67 Memorandum, repealing Memorandum IM-43 (2006). The revision requires an average of 24 targeted case reviews per supervisor who supervise eligibility specialists that determine eligibility to be completed, instead of 4 full reviews per ES, effective November 1, 2016.

Between November 1, 2016 and June 30, 2017, FSD MHABD supervisors completed an average of 24 MHABD case reviews per month.

The FSD continues to monitor MHABD case review completion to ensure case reviews are completed as directed by EMAIL IM-#67.

Contact Person: Heather Atkins
Phone Number: 573-751-4269

2016-006.	Medicaid Development Disabilities Comprehensive Waiver Group Home Rates
Federal Agency:	Department of Health and Human Services
Federal Program:	93.778 Medical Assistance Program
State Agency:	Department of Mental Health (DMH) - Division of Developmental Disabilities (DD)
Questioned Costs:	$937,867 (2016)
Similar Finding:	2015-015

The DD did not retain documentation to support per diem rates paid to some group homes for residential habilitation services provided to participants of the Home and Community Based Services, Developmental Disabilities Waiver (Comprehensive Waiver) program. As a result, the DD could not demonstrate amounts paid to some group homes were allowable costs of Comprehensive Waiver program.

Recommendation:

The DMH through the DD ensure documentation to support group home habitation services per diem rates is maintained to support Comprehensive Waiver program payments for these services as required, and ensure the rates only include allowable costs.

Status of Findings:

Since moving to an acuity-based rate methodology in FY 2014, the Division has updated the Comprehensive Waiver upon renewal in July 2016 and has obtained a rate study from Mercer in December 2016, which demonstrates the gap between existing rates paid and market costs. The Division is in the process of formalizing its rate methodology in the Code of State Regulations and no longer negotiates cost-based rates. New individuals placed in group homes follow the new rate methodology and the Division has developed funding proposals that would standardize existing rates.

Contact Person: Bryan Connell
Phone Number: 573-751-8041

State of Missouri - Single Audit
Letter to the Office of Administration Regarding Comprehensive Annual Financial Report Audit Delays
Year Ended June 30, 2017

NICOLE GALLOWAY, CPA
Missouri State Auditor

January 16, 2018

Ms. Sarah Steelman, Commissioner
Office of Administration
State Capitol Building
201 W. Capitol Avenue, Room 125
Jefferson City, MO 65101

Dear Commissioner Steelman:

As previously communicated to your staff, we continue to experience delays in issuing our opinion on the state's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2017. These delays result from our audit of the significant accounts of the Unemployment Compensation Fund, a major fund administered by the Department of Labor and Industrial Relations (DOLIR). Throughout the course of the audit, our DOLIR audit crew has experienced numerous delays of information requests, inaccurate reports, incorrect data, and other issues which have caused delays in finalizing audit fieldwork related to the Unemployment Compensation Fund. These issues appear to be to the result of weaknesses in the DOLIR's policies and procedures over financial reporting associated with the implementation of the new UInteract system.

As of today, there are still some outstanding issues our DOLIR audit crew is working with DOLIR staff to resolve. We will issue our opinion on the CAFR once these outstanding issues are resolved and we can assure ourselves the significant accounts of the Unemployment Compensation Fund are materially accurate.

If you have any questions, please contact Josh Allen, Audit Manager, at 573-751-4213.

Sincerely,

Michael A. Moorefield
Chief of Staff and Counsel

cc: Acting Director Anna S. Hui, Department of Labor and Industrial Relations

P.O. Box 869 • Jefferson City, MO 65102 • (573) 751-4213 • FAX (573) 751-7984

State of Missouri - Single Audit
First Letter to the Department of Natural Resources Regarding Certain Audit Acknowledgments and Representations
Year Ended June 30, 2017

NICOLE GALLOWAY, CPA
Missouri State Auditor

February 6, 2018

Director Carol Comer
Department of Natural Resources
1101 Riverside Drive
Jefferson City, MO 65102

Dear Director Comer:

I wanted to follow-up again as an office to determine whether the Department of Natural Resources (DNR) is intending to sign and return the Single Audit engagement letter and the Schedule of Expenditures of Federal Awards management representation letter. Government Auditing Standards require that we have these letters before we can issue an opinion on the programs.

This year's Single Audit contains two major programs under DNR's purview.[1] As is standard practice, DNR is billed for the audit of these programs, DNR has appropriation authority to pay for these programs, and DNR is reimbursed for the cost of the audit from the federal government. SAO covers the state portion of the cost to audit out of current appropriations.

The engagement letter was discussed with your staff in November 2017 and provided to DNR on November 29, 2017. SAO staff have inquired about the status of this letter with your staff multiple times since November 29th, expressing our concern with the unnecessary delay. Additionally, over the last few weeks, SAO staff have attempted to reach out to you directly by contacting your office. We have been able to confirm that you have the letter in your possession, but you have yet to sign it.

Along with the engagement letter, I am also inquiring about the status of the management representation letter for the Schedule of Expenditures of Federal Awards, which is part of the Single Audit. DNR had possession of this letter on December 20, 2017. We received a verbal commitment from DNR staff that the Department will be signing the letter but as of today have yet to receive confirmation that this occurred.

[1] The two major programs being audited this year are: (1) CFDA #66.458 Capitalization Grants for Clean Water State Revolving Funds; and (2) CFDA #66.605 Performance Partnership Grants.

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We have significant concerns with the delays we are experiencing. DNR is the only state agency that has not returned the engagement letter and we are nearing completion of the audit. This is the second year in a row that we have experienced significant delays. We work with the Office of Administration to closely coordinate the release of both the CAFR and the Single Audit, and its incumbent upon departments to timely sign engagement and management representation letters in order to ensure SAO's work is complete.

As a courtesy, the engagement letter and management representation letter are again attached. I ask that you respond by Friday February 9th concerning whether you intend to sign these documents. If you are going to sign, please return them by Friday February 16, 2018.

Please let me know if you have any questions.

Sincerely,

Michael A. Moorefield
Chief of Staff and Counsel

cc: Commissioner Sarah Steelman, Office of Administration

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NICOLE GALLOWAY, CPA
Missouri State Auditor

November 29, 2017

Carol S. Comer, Director
Department of Natural Resources
1101 Riverside Drive
Post Office Box 176
Jefferson City, MO 65102-0176

Dear Director Comer,

This letter, when returned with your approval, will confirm the audit services we are to provide the Department of Natural Resources for the year ended June 30, 2017. This audit is a part of the Statewide Single Audit of the State of Missouri.

Audit Objectives

An objective of our audit is the expression of an opinion about whether the State of Missouri's Schedule of Expenditures of Federal Awards (SEFA) is fairly presented, in all material respects, in relation to the financial statements presented in the Comprehensive Annual Financial Report as a whole. The objectives also include reporting on internal control over compliance related to major federal award programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and terms and conditions of federal awards that could have a direct and material effect on each major federal award program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). It is our responsibility to determine the state's major federal award programs using risk assessment criteria and other guidance included in the Uniform Guidance.

The report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. The paragraph will also state that the report is not suitable for any other purpose. However, pursuant to Section 29.200, RSMo, the report is a matter of public record and its distribution is not limited.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of the accounting records of major federal award programs and other procedures we consider necessary to enable us to express an opinion. We will issue written reports upon completion of our audit. Our reports will be addressed to the Governor and members of the General Assembly. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinion on the SEFA or our opinion on compliance is other than unmodified, we will discuss the reasons with you in advance.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the SEFA; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the SEFA. We will plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the SEFA is free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or government regulations that are attributable to the agency or to acts by management or employees acting on behalf of the agency. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the SEFA or on the major federal award programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods which we are not auditing.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the audit. At the conclusion of our audit, we will request certain written representations from you about your responsibilities for the SEFA; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by general accepted auditing standards.

Audit Procedures – Internal Control

Our audit will include obtaining an understanding of the agency and its environment, including internal control, sufficient to assess the risks of material misstatement of the SEFA and to design the nature, timing, and extent of further audit procedures. As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards,* and the Uniform Guidance.

Audit Procedures – Compliance

The Uniform Guidance requires that we plan and perform the audit to obtain reasonable assurance about whether the agency has complied with applicable federal statutes, regulations, and the terms and conditions of federal awards. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each major federal award program. The purpose of those procedures will be to express an opinion on the department's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Management Responsibilities

Management is responsible for (1) establishing and maintaining effective internal controls, including internal controls over federal awards, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the SEFA of the Department of Natural Resources in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements).

Management is also responsible for making all program financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the SEFA, (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons with the agency from whom we determine it necessary to obtain evidence.

Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the agency involving: (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the SEFA. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the agency and received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the agency complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan.

You are responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for the preparation of the SEFA (including notes and noncash assistance received) in conformity with the Uniform Guidance. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for the presentation of the SEFA in accordance with the Uniform Guidance; (2) you believe the SEFA, including its form and content, is stated fairly in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the SEFA.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the **Audit Objectives** section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation, engagements, performance audits, or studies. You also are responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and the timing and format for providing that information. You are responsible for submitting a corrective action plan to the OA timely to ensure the Statewide Single Audit deadline can be met.

Audit Administration, Fees, and Other

At the conclusion of the audit, the information for your agency will be added to our Statewide Single Audit report which is required to be submitted to the federal government by March 31, 2018. We will also complete the appropriate sections of the Data Collection Form that summarizes our audit findings for the State of Missouri. The Office of Administration (OA) is responsible for submitting the reporting package (including financial statements, the Statewide Single Audit report, and corrective action plans) along with the Data Collection Form to the federal audit clearinghouse by the above deadline. We will coordinate with the OA the electronic submission and certification.

The Statewide Single Audit report is intended for the information and use of the management of the state of Missouri; federal awarding agencies, pass-through entities, and federal auditing agencies; and other applicable government officials. However, pursuant to Section 29.200, RSMo, the report will be a matter of public record and its distribution will not be limited. Audit working papers are considered closed records; however, access to those working papers may be made available as necessary to federal awarding or oversight agencies when deemed appropriate by the Office of Missouri State Auditor.

For our services relating to the federal audit work required by the Single Audit Act Amendments of 1996 and the Uniform Guidance, we will request payment be made from funds received by your agency from federal sources. We estimate the federal share of the cost for our services to be approximately $80,700. This billing does not include audit services related to the Parks Sales Tax and Soil and Water Sales Tax funds, which are paid from State Auditor's Office appropriations from those funds. Should unforeseen circumstances develop during our audit, you request additional services, or significant delays occur in obtaining requested documentation, we will discuss the situation with you, and if necessary, we will bill you for the additional costs. We will request payment of 90 percent of our fee when fieldwork on federal audit work is complete. We will bill the remainder after the audit report is delivered.

If the contents of this letter are acceptable to you, please acknowledge by signing in the space provided and returning it to us. If you have any questions, please contact Wayne Kauffman of my office at 751-4213.

Sincerely,

Kim Spraggs

Kim Spraggs, CPA
Assistant Director of Audits

ACCEPTED BY:______________________________ DATE:_______________
(Name and title)

[Date of CAFR Audit Report]

Honorable Nicole R. Galloway
Missouri State Auditor
P.O. Box 869
Jefferson City, MO 65102

Dear Ms. Galloway:

This representation letter is provided in connection with your audit of the federal awards administered by the Department of Natural Resources, which is part of the Statewide Single Audit of the State of Missouri for the year ended June 30, 2017.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of (**Date of CAFR Audit Report**), the following representations made to you during your audit.

Schedule of Expenditures of Federal Awards (SEFA)

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 29, 2017, including our responsibility for the preparation and fair presentation of the SEFA.

2. The SEFA is fairly presented in conformity with the accounting basis required by the federal agency.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the SEFA that is free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. Related party relationships and transactions have been appropriately accounted for and disclosed.

7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to June 30, 2017, that would require adjustment to or disclosure in the SEFA or in the Schedule of Findings and Questioned Costs.

8. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed.

9. Guarantees, whether written or oral, under which the department is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the SEFA, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the department from whom you determined it necessary to obtain audit evidence.

11. All material transactions have been recorded in the accounting records and are reflected in the SEFA.

12. We have disclosed to you the results of our assessment of the risk that the SEFA may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the department and involves:

    a. Management,

    b. Employees who have significant roles in internal control, or

    c. Others where the fraud could have a material effect on the SEFA.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the department's SEFA communicated by employees, former employees, regulators, or others.

15. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing the SEFA.

16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the SEFA.

17. The department has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

18. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the state's financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

19. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

20. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

21. There are no violations or possible violations of laws, regulations, provisions of contracts and grant agreements whose effects should be considered for disclosure in the SEFA, or as a basis for recording a loss contingency, or for reporting on noncompliance.

22. The department has satisfactory title to all owned assets purchased with federal funds, and there are no unauthorized liens or encumbrances on such assets nor has any asset been pledged as collateral.

23. With respect to federal award programs:

    a. We are responsible for understanding and complying with, and have complied with, the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the SEFA.

    b. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have identified and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

    c. We acknowledge our responsibility for presenting the SEFA and related notes in accordance with the requirements of the Uniform Guidance, and we believe the

SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

Chief Executive Officer and Title

Chief Financial Officer and Title

State of Missouri - Single Audit
Second Letter to the Department of Natural Resources Regarding the Compliance Management Representation Letter
Year Ended June 30, 2017

NICOLE GALLOWAY, CPA
Missouri State Auditor

February 14, 2018

Director Carol Comer
Department of Natural Resources
1101 Riverside Drive
Jefferson City, MO 65102

Dear Director Comer:

This letter serves as additional communication regarding the compliance management representation letter for the Single Audit. Audit staff provided the letter to DNR staff on Thursday, February 8, 2018, and gave instructions for signing and returning the letter. Similar to the engagement letter and the management representation letter for the Schedule of Expenditures of Federal Awards, the compliance management representation letter contains written management representations necessary to provide our opinions on the two major programs audited at the DNR[1].

As discussed with your staff, the compliance management representation letter should be dated and signed as of the date of fieldwork completion for the overall Statewide Single Audit. At this time, our expected fieldwork completion is around March 9, 2018. Once the exact date is known, our staff will contact the DNR with the date for the letter.

As discussed with your staff, here is the timeline of expectations for the compliance management representation letter:

> February 8, 2018 - DNR management review the letter and contact our office regarding any concerns with the contents of the letter. DNR management identify who will provide verbal communication to our office in early March (see below), and establish a plan to ensure the letter will be signed as of the letter date and submitted to the State Auditor's office.
>
> Early March - Our staff will contact the DNR with the date for the letter. At that time, the DNR will be asked to provide oral confirmation that management has reviewed the representation letter and will sign the letter without exception, as of the date of the letter.
>
> Letter Date - DNR management sign the letter and return it to our office within 1 week of the letter date.

[1] The two major programs being audited this year are: (1) CFDA #66.458 Capitalization Grants for Clean Water State Revolving Funds; and (2) CFDA #66.605 Performance Partnership Grants.

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Because the written representations contained in the letter are necessary to provide our audit opinions, and because we have a deadline under federal law for issuing the Single Audit report, it is critical that the DNR sign and return the compliance management representation letter in a timely manner. If the DNR does not provide the compliance management representation letter within 1 week of the letter date communicated by our staff, we will consider such action as the department's refusal to furnish the written representations, and will express our opinions accordingly.

As a courtesy, the compliance management representation letter is again attached.

Please let me know if you have any questions.

Sincerely,

Michael A. Moorefield
Chief of Staff and Counsel

cc: Commissioner Sarah Steelman, Office of Administration

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[Date of Single Audit Report]

Honorable Nicole R. Galloway
Missouri State Auditor
P.O. Box 869
Jefferson City, MO 65102

Dear Ms. Galloway:

This representation letter is provided in connection with your audit of the federal awards administered by the Department of Natural Resources, which is part of the Statewide Single Audit of the State of Missouri for the year ended June 30, 2017.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of **(Date of Single Audit Report)**, the following representations made to you during your audit.

Information Provided

1. We have provided you with:

   a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the SEFA, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.

   b. Additional information that you have requested from us for the purpose of the audit.

   c. Unrestricted access to persons within the department from whom you determined it necessary to obtain audit evidence.

2. We have disclosed to you the identity of the department's related parties and all the related party relationships and transactions of which we are aware.

3. We have made available to you all financial records and related data relative to the federal programs and all audit or relevant monitoring reports, if any, received from funding sources.

4. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices relative to the federal programs.

5. We have identified to you any financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

6. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.

7. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the state's financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

8. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

9. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

10. There are no violations or possible violations of laws, regulations, provisions of contracts and grant agreements whose effects should be considered for disclosure in the SEFA, or as a basis for recording a loss contingency, or for reporting on noncompliance.

11. The department has satisfactory title to all owned assets purchased with federal funds, and there are no unauthorized liens or encumbrances on such assets nor has any asset been pledged as collateral.

12. With respect to federal award programs:

    a. We are responsible for understanding and complying with, and have complied with, the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

    b. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of the federal awards and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of the federal awards that are considered to have a direct and material effect on the programs.

c. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing the programs in compliance with federal statutes, regulations, and the terms and conditions of the federal awards that could have a material effect on the programs. We believe the internal control system is adequate and is functioning as intended.

d. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to the programs and related activities.

e. We have complied with the direct and material compliance requirements including when applicable, those set forth in the *OMB Compliance Supplement*, relating to the programs and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.

f. We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

g. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the audit to the date of the auditor's report.

h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E).

i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

j. We have made available to you all documentation related to compliance with direct and material compliance requirements, including information related to program financial reports and claims for advances and reimbursements.

k. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

l. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.

m. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.

n. The program financial reports and claims for advances and reimbursements are supported by the books and records from which the SEFA has been prepared.

o. The copies of program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

p. We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.

q. We have issued management decisions for audit findings that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.

r. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.

s. We have charged costs to federal awards in accordance with applicable cost principles.

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Chief Executive Officer and Title

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Chief Financial Officer and Title