Claire McCaskill
Missouri State Auditor

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General Assembly and Supporting Functions

Committee on Legislative Research

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Office Of
Missouri State Auditor
Claire McCaskill

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YELLOW SHEET

The following findings were noted as a result of an audit conducted by our office of the General Assembly and Supporting Functions – Committee on Legislative Research.

The Committee on Legislative Research's Oversight Division provides information to the General Assembly regarding the estimated fiscal impact of proposed legislation through fiscal notes developed with assistance from the affected agencies. However, there are no statutory provisions or other mechanisms which require or provide for the actual fiscal impact of legislative decisions to be reported to the General Assembly after legislation has been passed.

The audit disclosed various examples where the actual fiscal impact of legislative decisions was not determined and reported to the legislature. In some instances, the actual fiscal impact may have been significantly different than the fiscal impact estimated when the related legislation was being considered. Examples included:

- In July 1990, the state of Missouri agreed to provide annual funding of $12 million to pay debt service and other costs related to the construction of the Edward Jones Dome, which represented an expansion of the convention center in St. Louis. Prior to appropriating these funds, the state hired a private firm to conduct a economic impact study of the proposed project. The study, released in 1991, estimated the operation of the expanded convention center could result in $17 million in new state tax revenues. The study estimated that most of this growth in state revenues would result from an increase in the number of convention and trade shows held at the facility.

  Our audit found that the state has never had a follow-up study conducted or taken any other steps to determine whether the fiscal benefits projected in the 1991 study were ever realized. We also noted that the number of conventions and trade shows held at the expanded convention center since the Dome opened has been consistently less than the number of such events projected by the study.

  In the 1998 legislative session, legislation was passed which, among other things, increased the state income tax dependency deduction amount from $400 to $1,200. The fiscal note for this legislation estimated state revenues would decrease by approximately $68 million annually as a result of this change. Department of Revenue (DOR) officials indicated the amount state revenues decreased as a result of this legislation was not readily available. In addition, they indicated information regarding the actual fiscal impact of this change had not been requested by the General Assembly or any other legislative agency since this legislation was passed.

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- In the 2003 legislative session, legislation was passed requiring all lottery and gaming winnings to be included in Missouri nonresident's adjusted gross income when the winnings were from a Missouri source. The fiscal note for this legislation estimated state revenue would increase by $6.6 million annually as a result of this change. DOR officials reported state revenues increased by $10.2 million in fiscal year 2004 as a result of this legislation. However, there was no indication this information had been requested by or provided to the General Assembly or any other legislative agency since this legislation was passed.

A means or mechanism should be established to ensure the actual fiscal impact of significant legislative decisions is reported to the General Assembly. Such information could be used by the General Assembly in evaluating past legislation and in making future legislative decisions. Considering the Committee's role in providing fiscal information to the General Assembly, it appears appropriate that it would be involved in this effort.

Various concerns were reported regarding the Committee on Legislative Research's personnel policies, some of which were reported in the previous audit. The committee provides its employees annual leave benefits that are more generous than what is allowed to most other state employees. Also, employees of this agency earn 10 hours of annual leave per month during the first five years of service, 12 hours per month after five years, and 14 hours per month after ten years. In contrast, most state employees earn annual leave of 10 hours per month during the first ten years of service, 12 hours per month after ten years, and 14 hours per month after fifteen years. There appears to be no basis for these additional annual leave benefits.

In August 2000, the Committee revised its sick leave policy, reducing the amount of sick leave earned by its employees from 14 to 10 hours per month to address a prior audit recommendation. However, the Committee did not adjust recorded employee sick leave balances to reduce the balances by the amount of sick leave earned at the higher rate. As a result, during the audit period the Committee certified excessive accumulated sick leave balances to the state retirement system for some employees when they retired from state employment. These excessive balances were used by the state retirement system to calculate creditable service and retirement benefit payments.

The Research Division does not require its employees to work a minimum of 40 hours per week, as is required of most other state employees. In accordance with provisions in the Committee's personnel manual, in May 2004, the Acting Director of the Research Division authorized most employees of that division to work a 7-hour per day, 35-hour workweek during that portion of the year after the session ended. This decision affected 23 of 26 Research Division employees.

Some of the findings noted above were included in our prior report.

Also included in the report are recommendations related to inventory controls and procedures, and capital assets.

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GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
COMMITTEE ON LEGISLATIVE RESEARCH

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We have audited the Committee on Legislative Research. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2004, 2003, and 2002. The objectives of this audit were to:

1. Review internal controls over significant management and financial functions.

2. Review revenues and expenditures of the Committee, and its compliance with certain legal provisions.

3. Evaluate the economy and efficiency of certain management practices and operations.

4. Determine the extent to which audit recommendations included in our prior audit were implemented.

Our methodology to accomplish these objectives included reviewing minutes of meetings, written policies, financial records, and other pertinent documents; interviewing various personnel of the Committee on Legislative Research as well as certain external parties; and testing selected transactions.

In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance

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with the provisions. 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.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the committee's management and was not subjected to the procedures applied in the audit of the Committee on Legislative Research.

The accompanying Management Advisory Report presents our findings arising from our audit of the Committee on Legislative Research.

Claire McCaskill
State Auditor

February 4, 2005 (fieldwork completion date)

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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
COMMITTEE ON LEGISLATIVE RESEARCH
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Fiscal Impact of Legislative Decisions

Pursuant to Section 23.140, RSMo, the Committee on Legislative Research's Oversight Division provides information to the General Assembly regarding the estimated fiscal impact of proposed legislation. This information is provided through fiscal notes developed by the division with assistance from the affected agency(ies). However, there are no statutory provisions or any other means or mechanism which require or provide for the actual fiscal impact of legislative decisions to be reported to the General Assembly after legislation has been passed.

During past audits of other agencies we reported instances in which the actual fiscal impact of a legislative decision was not determined and reported to the General Assembly. In some of these instances, the actual fiscal impact was significantly different than the fiscal impact estimated when the related legislation was being considered. In addition, during the current audit we noted other instances of legislative decisions made in which the actual fiscal impact was not determined and reported to the legislature. These instances are as follows:

- In July 1990, the state of Missouri, along with the city of St. Louis and St. Louis County, entered into a project agreement whereby these entities agreed to cooperate in the planning, design, financing, and construction of a multi-purpose convention and sports facility project. This project represented an 180,000 square foot eastern expansion of the existing A. J. Cervantes Convention Center and eventually resulted in the building of the Edward Jones Dome (the Dome). The facility was to be owned by the St. Louis Regional Convention and Sports Authority (Authority) and be operated by the St. Louis Convention and Visitors Commission (CVC).

  The agreement to build the Dome provided for the state to commit $10 million annually to pay the debt service costs of the project, plus $2 million annually in project preservation payments. The city and the county each agreed to pay $5 million annually to fund the debt service costs and $1 million annually in preservation payments. The agreement was considered a legal, valid, and binding obligation of the state, but was subject to the further execution of financing documents. In addition, the funding commitments were subject to annual appropriation.

  Prior to the appropriation of the initial funding, the state of Missouri hired a private firm to conduct a fiscal benefit (economic impact) study of the proposed project. This study's purpose was to provide an estimate of the new tax revenues which would be generated for the state of Missouri during the operation of the expanded convention center.

The study, released in February 1991, estimated the operation of the expanded convention center could result in approximately $170 million in new direct spending and approximately $17 million annually (based on 1995 dollars) in new total state tax revenues. Of the $170 million in new direct spending, the study estimated that $146 million of this (or 86 percent) would be generated from exhibition space events (conventions and trade shows). The study estimated that only $24 million in new direct spending (or 14 percent) would come from fixed seating events (sports events, concerts, festivals, etc.).

The state legislature subsequently approved the initial appropriations (as part of the fiscal year 1992 budget) to fund the project. Also, in August 1991, the state of Missouri, along with the city of St. Louis and St. Louis County, entered into a financing agreement whereby these entities agreed to sponsor bonds issued by the Authority to finance construction of the new facility. The state's portion of the bonds totaled almost $133 million.

The state has never had a follow-up study conducted or taken any other steps to determine whether the fiscal benefits projected in the 1991 study were realized. Further, based on a review of that study and the actual event activity at the convention center complex, it appears the actual fiscal benefits generated may have been significantly less than what was projected in the study.

To estimate the incremental or new direct spending generated by exhibition space users, the preparers of the 1991 study estimated the number of exhibition space events annually that would rotate to St. Louis and calculated the estimated direct spending that would occur as a result of those events. The current exhibition space event spending at that time was then subtracted from the total, leaving the new direct spending associated with the expansion of the convention center.

The study focused on national/regional events on the premise that such events would generate new spending in the local economy since they would primarily attract attendees from outside the area. In contrast, events that primarily attract local attendees (such as a sports event or concert) would not generate a significant amount of new spending based on the belief that those dollars would be spent elsewhere locally even if the event was not held.

The study estimated that 39 national/regional events might rotate to St Louis in the expanded convention center's initial year of operation and the majority of the attendees would participate in the event an average of four days. The new direct spending which would result would relate primarily to hotel, restaurant, shopping, and entertainment expenses incurred by these out-of-town attendees. The study estimated an annual growth rate of 2 percent in the number of such events hosted in St. Louis.

To determine the extent of national/regional exhibition space events (conventions and trade shows) actually held at the facility, we contacted CVC personnel and obtained a listing of such events held in recent years. The following table presents the estimated number of national/regional events, the actual number of such events according to CVC records, and the percentage difference. Since the study only presented an estimated number of such events (39) for the first year of operation, the estimated numbers presented in the table for those years subsequent to the first year of operation (fiscal year 1997) are based on the 2 percent annual growth rate discussed in the study.

National/Regional Events:

Fiscal Year	Estimated	Actual	Percentage Difference
1991	N/A	21	N/A
1992	N/A	13	N/A
1993	N/A	21	N/A
1994	N/A	22	N/A
1995	N/A	29	N/A
1996	N/A	27	N/A
1997	39	30	-23
1998	40	25	-37
1999	40	28	-30
2000	41	21	-49
2001	42	25	-40
2002	43	25	-42
2003	44	26	-41
2004	45	26	-42

The above table indicates the number of national/regional events held at the expanded convention center since the Dome opened has been consistently less than the number projected by the 1991 study. Although the expansion of the convention center (including the building of the Dome) has undoubtedly provided some fiscal benefits for the state and local area, data was not available to allow us to determine the extent of actual new direct spending and related new state tax revenues that have actually been realized. In addition, we saw no indication the state has made any attempt to determine the actual fiscal impact of this funding decision since it was made.

This situation was initially noted during our last audit of the St. Louis Regional Convention and Sports Authority (three years ended December 31, 2002). No finding or recommendation was included in that report since this situation did not relate to the Authority's activities or responsibilities.

As a matter of courtesy, we provided a copy of this finding to the Authority and the CVC for their review and comment. The Authority had no comments regarding this finding. However, in a letter to our office, the CVC has alleged that our finding has numerous misleading statements, erroneous assumptions, and factual errors. The CVC has also indicated that we have misinterpreted the 1991 study commissioned by the state of Missouri and that we have omitted significant revenues from our analysis. After reviewing the assertions made by the CVC, we strongly disagree that our analysis was flawed in any way or that we misinterpreted the 1991 study. The results of our work clearly support our conclusion that no effort has been made by the **state of Missouri** to determine whether the projected fiscal benefits to the state were actually realized.

- In the 1999 legislative session, the General Assembly approved a tax credit of up to $200 per year for senior taxpayers for out-of-pocket costs for prescription drugs pursuant to 135.095, RSMo. To be eligible for the full credit, a taxpayer had to have an income of $15,000 or less and be at least 65 years of age. The $200 credit was to be reduced by $2 for every $100 of taxpayer income that was over the income limit. This tax credit was for tax years 1999 to 2001, expiring on December 31, 2001.

  In an April 2001 audit report entitled <u>Review of Pharmaceutical Tax Credit for Senior Citizens</u>, Report No. 2001-34, this office reported the actual fiscal impact of this tax credit was significantly more than what had been estimated. Fiscal note information initially provided by the Office of Administration estimated 261,000 Missouri senior residents would utilize the pharmaceutical tax credit, which would result in a loss of revenue to the state of $39.7 million. The Oversight Division subsequently reduced the estimated revenue loss in the fiscal note to $20 million annually, on the premise that only fifty percent of eligible taxpayers would actually utilize the credit.

  According to the Department of Revenue (DOR), 458,000 individuals utilized the senior pharmaceutical tax credits in the tax year 1999, resulting in a loss of revenue to the state of $83 million. Although DOR policy decisions resulted in the over-utilization of the tax credits in 1999, it appears the actual fiscal impact of this legislative decision still would have exceeded initial estimates by a substantial amount.

- In the 1997 legislative session, the General Assembly passed legislation to reduce the state sales tax rate on food pursuant to 144.014, RSMo. This legislation reduced the state sales tax on food by 3 percent. The fiscal note which supported this legislation estimated state revenue would be reduced by $155.9 million in fiscal 1998, with this revenue loss increasing to $238.6 million and $243.4 million in fiscal years 1999 and 2000, respectively.

We contacted the Department of Revenue (DOR) to determine the actual impact this legislation had on state revenues. DOR officials reported that revenues dropped by $133.8 million, $223.8 million, and $239.4 million in fiscal years 1998, 1999, and 2000, respectively. Although there was no clear indication that this fiscal impact information had been provided broadly to the General Assembly, DOR officials indicated that this information was available to any legislator or legislative committee upon request, and they were aware that occasional requests had been made for this information. In addition, DOR officials indicated this information had been provided to the Office of Administration, Division of Budget and Planning, and that agency may have shared it with legislators.

- In the 1998 legislative session, the General Assembly passed legislation to increase the state income tax dependency deduction amount from $400 to $1,200 pursuant to 143.161, RSMo. In addition, an additional $1,000 deduction was authorized for any dependent at least 65 years of age who resided at the taxpayer's home, the dependent's home, or did not receive Medicaid or state funding while residing in a licensed nursing facility. The fiscal note for this legislation estimated state revenues would decrease by approximately $68 million annually for fiscal years 1999, 2000, and 2001 as a result of this statutory change.

  We contacted the DOR to determine the actual impact this legislation had on state revenues. DOR officials indicated the amount state revenues decreased as a result of this legislation was not readily available. Department officials indicated information regarding the actual fiscal impact of this legislative decision had not been requested by the General Assembly or any other legislative agency since this legislation was passed.

- In the 1997 legislative session, the General Assembly authorized a historic preservation tax credit pursuant Sections 253.545 to 253.559, RSMo. These statutes authorized tax credits related to the rehabilitation of commercial and residential historic structures located within certified historic districts. The credits were to be equal to 25 percent of the total costs and expenses to rehabilitate eligible projects provided such costs exceeded 50 percent of the owner's total basis in the property.

  In an April 2002 audit report entitled <u>Review of State Tax Credits Administered by the Department of Economic Development</u>, Report No. 2002-33, this office reported that the fiscal impact of the historic preservation tax credits had been underestimated. That report disclosed the Department of Economic Development had estimated the historic preservation tax credit redemptions for fiscal year 2001 would be $27 million but instead actual tax credit redemptions for that year totaled $34 million. In addition, actual tax credit redemptions for fiscal years 2002 and 2003 totaled $41.4 million and $43.1 million, respectively.

In the fiscal note which supported this legislation, the Department of Natural Resources indicated the tax credits realized by this would average approximately $14 million annually, with $2.8 million and $7.1 million in credits being redeemed in fiscal years 1999 and 2000, respectively. It is apparent the fiscal impact estimates at the time this legislation was passed were significantly less than the actual impact realized.

- In the 1999 legislative session, the General Assembly increased the state income tax exemption amounts pursuant to Sections 143.151 and 143.161, RSMo. This legislation increased personal exemptions by $900 to $2,100, and increased the head of household exemption by $1,400 to $3,500. The fiscal note which supported this legislation estimated that state revenue would be reduced by $155.4 million in fiscal 2000, with this revenue loss increasing to $159.8 million in fiscal year 2002.

  We contacted the DOR to determine the actual impact this legislation had on state revenues. Department officials initially indicated the amount of state revenue losses as a result of these changes was not readily available and would have to be generated for us. Subsequently, that department reported that state revenues dropped by $156.9 million in fiscal year 2002 as a result of this legislation. Department officials indicated information regarding the actual fiscal impact of this legislative decision had not been requested by the General Assembly or any other legislative agency since this legislation was passed.

- In the 2003 legislative session, the General Assembly passed legislation requiring all lottery and gaming winnings to be included in Missouri nonresident adjusted gross income when the winnings are from a Missouri source pursuant to 143.181, RSMo. The fiscal note for this legislation estimated state revenue would increase by $6.6 million annually in fiscal years 2004, 2005, and 2006, as a result of this statutory change.

  We contacted the DOR to determine the actual impact this legislation had on state revenues. DOR officials reported state revenues increased by $10.2 million in fiscal year 2004 as a result of this legislation. Department officials indicated information regarding the actual fiscal impact of this legislative decision had been supplied to the Office of Administration, Division of Budget and Planning. However, there was no indication this information had been requested by/or provided to the General Assembly or any other legislative agency since this legislation was passed.

- In the 1999 legislative session, the General Assembly also lowered the corporate franchise tax pursuant to Section 147.010, RSMo. That legislation raised the tax base floor from $200,000 to $1,000,000, and reduced the tax rate from one-twentieth of one percent to one-thirtieth of one percent. The fiscal note for this legislation estimated this reduction in the corporate franchise taxes would result in a loss of state revenues of over $25 million annually.

We contacted the DOR to determine the actual impact this legislation had on state revenues. DOR officials indicated this information could not be specifically and reliably identified, and they have no method to calculate the actual fiscal impact. There was no indication information regarding the actual fiscal impact of this legislative decision had been requested by the General Assembly or any other legislative agency since the legislation was passed.

- In the 2003 legislative session, the General Assembly passed legislation which allowed the revocation of any professional license granted by the state if the DOR verified the license applicant had not filed or paid their state taxes pursuant to Section 324.010, RSMo. The fiscal note for this legislation estimated that state revenues would increase by $19.4 million in fiscal year 2004 and by a total of $1 million in fiscal years 2005 and 2006, as a result of this statutory change.

  We contacted the DOR to determine the actual impact this legislation had on state revenues. Department officials indicated the total amount state revenues increased as a result of the applicable house bill had been measured ($3 million and $5.4 million in fiscal 2004 and 2005, respectively); however, amounts specifically related to professional licensees were not available. There was no indication this information had been requested by the General Assembly or any other legislative agency since this legislation was passed.

A means or mechanism should be established to ensure the actual fiscal impact of significant legislative decisions is reported to the General Assembly. Such information could be used by the General Assembly in evaluating past legislation and in making future legislative decisions. Considering the Committee's role in providing fiscal information to the General Assembly, it appears appropriate that it would be involved in this effort.

It should be noted that in 2003, the General Assembly passed the Missouri Sunset Act pursuant to Sections 23.250 to 23.298, RSMo, which became effective on August 28, 2003. The Sunset Act provides that any new program authorized into law will sunset after a period of not more than six years unless it is reauthorized. That legislation provides the Committee on Legislature Research and its staff shall review the new programs before their sunset dates and present a report to the General Assembly regarding the need and performance of the programs and make recommendations regarding the sunset, continuation, or reorganization of each affected program. While these statutory provisions include criteria to be considered during these program reviews, we saw no requirement that the actual fiscal impact of such programs be compared to original estimates.

WE RECOMMEND the Committee on Legislative Research work with the General Assembly in establishing a means or mechanism to follow-up and report on the actual fiscal impact of significant legislative decisions. Such an effort may result in the need to make revisions to the Missouri Sunset Act or other statutes.

AUDITEE'S RESPONSE

The Joint Committee on Legislative Research currently possesses a statutory mechanism in the Missouri Sunset Act to report on the subsequent fiscal impact of legislative decisions. The Committee believes that to develop a more extensive method would be a policy decision for the Committee.

2. Personnel Policies and Records

Attorney General's Opinion No. 46, 1980 to Bradford, concluded legislative employees are exempt from the requirements of Section 36.350, RSMo, regarding hours of work, sick and annual leave accruals, and other personnel matters. However, our review of the Committee on Legislative Research's personnel policies and related records disclosed the following concerns:

A. The Committee on Legislative Research's personnel policies provide that its employees earn 10 hours of annual leave benefits per month during the first five years of service. After five years, the employees earn annual leave at a rate of 12 hours per month and after ten years annual leave is earned at a rate of 14 hours per month. This policy provides annual leave benefits that are more generous than what is allowed to most other state employees. Most state employees earn 10 hours of annual leave benefits per month during the first ten years of service, with that rate increasing to 12 hours per month after ten years and 14 hours per month after fifteen years of service.

There appears to be no basis for the Committee on Legislative Research to provide annual leave benefits to its employees that are more generous than those provided to most other state employees. In addition, these additional annual leave benefits result in increased costs to the state.

B. The Committee on Legislative Research is certifying excessive accumulated sick leave balances to the state retirement system for some employees when they retire from state employment.

The excess sick leave balances exist due to a past Committee policy which allowed employees to earn 14 hours of sick leave per month, rather than the 10 hours per month earned by most state employees. In August 2000, the Committee on Legislative Research revised its sick leave policy to address a prior audit recommendation, reducing the amount of sick leave earned by its employees to 10 hours per month. However, the Committee did not adjust recorded employee sick leave balances to reduce the balances by the amount of sick leave earned at the higher rate, and it has continued to certify excess accumulated sick leave balances for terminating employees who earned sick leave at a higher rate prior to the 2000 policy change.

Unused accumulated sick leave is counted as creditable service by the state employee retirement system. Section 104.601, RSMo, states that for the purpose of computing years of creditable service, the rate of accrual of sick leave shall be no greater than ten hours per month.

During the three years ended June 30, 2004, the Committee certified sick leave balances of four employees to the state retirement system. Each of these employees worked for the Committee prior to August 2000. As a result, the balances certified for these employees included some sick leave accrued at the 14-hour per month rate in effect prior to August 2000. These excessive balances were used by the state retirement system to calculate creditable service and retirement benefit payments.

This situation has resulted in the Committee certifying excessive accumulated sick leave balances to the state retirement system and the payment of retirement benefits to some retired employees in excess of amounts authorized by state law.

C. The Research Division does not require its employees to work a minimum of 40 hours per week as is required of employees of most other state agencies.

The Committee on Legislative Research's personnel manual currently defines the normal workweek for its employees as a 40-hour workweek; however, the manual provides that employees of the Research and Oversight Divisions, at the discretion of the respective director, may work less than 40 hours if assigned tasks are completed in a timely manner. The personnel manual states a minimum of 35 hours a week and 7 hours a day is required to receive full pay.

After the legislative session ends, many Research Division employees are not required to work a 40-hour week. We noted in May 2004, the Acting Director of that division authorized employees (other than Revision staff) to work a 7-hour per day, 35-hour workweek during that portion of the year after the session ended. As a result, twenty-three of twenty-six Research Division employees were allowed to work the reduced schedule from mid-May 2004 through the end of calendar year 2004.

The Acting Director indicated he approved this reduced work schedule because of the significant amounts of overtime and stress that Research Division employees deal with during the session. It should be noted the Research Division employees earn and accumulate compensatory time during the session for any overtime worked; however, there is no reduction in the compensatory time balances to offset the reduced workweeks after the session. In 2004, employees of the Oversight Division were required to work a 40-hour workweek throughout the year.

Pay for other state employees is generally based on an 8-hour day/40-hour week. It appears unreasonable for some employees of this agency to be required to work less hours per week than is required of most other state employees.

D. The Oversight Division does not maintain adequate timekeeping and leave records. We found that leave taken by employees of that division was not always supported by leave requests, as required. In addition, we noted that compensatory time earned and leave taken was not always reflected accurately on the timesheets submitted by the employees or accurately recorded in the accumulated leave records maintained by the division.

We reviewed the monthly timekeeping/leave records and supporting documentation for one year for 8 employees in the Oversight Division and noted recordkeeping errors for 6 of the 8 employees reviewed. For 7 of 77 months reviewed (9 percent) for the employees tested, leave taken was not supported by leave requests or was not correctly recorded on the weekly time sheets submitted by the employees. For 12 of 77 months reviewed (16 percent) compensatory time earned or leave taken was not accurately recorded in the accumulated leave records maintained by the division.

The Oversight Division needs to make a greater effort to ensure the timesheets and supporting documentation prepared and submitted by the employees and the accumulated leave records maintained by the division are accurate and in agreement.

Conditions B. and C. were similarly noted in our prior report.

WE RECOMMEND:

The Committee on Legislative Research:

A. Reduce the annual leave benefits provided to its employees to an amount equal to those provided to most other state employees.

B. Ensure the accumulated sick leave balances certified to the state retirement system for retiring employees is reported on a 10-hour per month accrual basis as required by law. This will require the accumulated sick leave balances to be adjusted for any sick leave earned at the previous 14-hour per month rate.

C. Require its employees, including those of the Research Division, to work 40 hours per week as is required of most other state/private employees.

The Oversight Division:

D. Ensure leave taken by its employees is accurately reflected on the weekly timesheets submitted by the employees and supported by any required documentation. In addition, the Oversight Division should ensure the timekeeping/accumulated leave records it maintains are accurate and reflect correct compensatory time and accumulated leave balances.

AUDITEE'S RESPONSE

A. The Joint Committee on Legislative Research annual leave benefits for staff are determined by the Committee and are not subject to existing statutory requirements.

B. The Joint Committee on Legislative Research changed its personnel policy to allow employees to earn 10 hours of sick leave per month from August 1, 2000 onward. It is the Committee's understanding that MOSERS will only calculate 10 hours of sick leave per month of state employment to be counted as creditable service.

C. The Joint Committee on Legislative Research has historically adopted personnel policies for its employees that take into account the conditions and nature of legislative work. While the legislature is in session, employees are required to be "on call" at all times and to work as many hours as necessary to keep pace with legislative demands. These expectations frequently create interference with personal responsibilities. The work environment of the legislature should not be compared to that of other state agencies; time constraints often place extraordinary pressure on staff. The Attorney General in 1980 clearly recognized the difference as referenced in the State Auditor's finding.

D. The Joint Committee on Legislative Research - Oversight Division has established procedures to ensure that leave records and time sheets are accurate and reflect correct leave balances.

3. Inventory Controls and Procedures

The Research Division maintains an inventory of revised statutes, supplements, and session law books for sale and distribution. These publications are sold to the public or distributed at no charge to various government officials/agencies as provided in Section 3.130, RSMo. Our review of the controls and procedures related to this inventory disclosed the following concerns:

A. The Research Division performs physical counts of the inventory items on a periodic basis. However, the division does not maintain a perpetual inventory balance or compute a book balance of its inventory items periodically. As a result, the physical inventory counts are not reconciled to a book balance, and the division has no assurance the items counted reflect the items that should be in inventory. Using available records, we calculated a book balance of inventory items as of June 30, 2004, and compared those amounts to a physical count taken as of that date. We noted various differences which could not be explained by division employees.

   The Research Division needs to establish inventory records and procedures which allow it to compare and agree its periodic physical counts to the book balance of inventory items. Such procedures are needed to lessen the possibility that instances of loss, misuse, or theft of inventory items will occur without being detected.

B. The Research Division is responsible for collecting the receipts for the sale of statutes, supplements, and session laws. We noted that one individual records the receipts on a database, prepares the documents indicating the receipt of payments, and prepares the revenue transmittals and deposit slips. This individual also tracks and maintains the inventory, performs the physical counts, and prepares inventory for shipment.

   To safeguard against possible loss or misuse of assets, the duties related to the sale of statutes and maintaining inventory items should be segregated to the extent practical. Proper segregation could be achieved by designating some duties to an independent employee who does not have any responsibility regarding statute sales and inventory functions. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent review of the statute sales and inventory records and procedures performed periodically.

These conditions were similarly noted in our prior report.

<u>WE AGAIN RECOMMEND</u> the Research Division:

A. Maintain a perpetual inventory balance for all inventory items or compute a book balance of its inventory items periodically. The book balances should be compared to the periodic physical counts. Any differences between the book balances and physical counts should be investigated on a timely basis.

B. Ensure the duties related to the sale of statutes and maintenance of inventory records are properly segregated to provide reasonable assurance that all transactions are accounted for properly.

AUDITEE'S RESPONSE

A. The Joint Committee on Legislative Research has established since the date of the review period inventory records and procedures to compare periodic physical counts to book balances of inventory items.

B. The Joint Committee on Legislative Research has segregated duties relating to sale of RSMos and Session Laws from the maintenance and shipping of those items.

4. Capital Assets

The Oversight Division has not maintained its capital asset records in a manner which allows balances to be reconciled from period to period. The Oversight Division prepared separate listings of asset additions and dispositions for each year; however, the disposition listings did not include a cost or value for some of the assets disposed. In addition, the total capital asset balances were not determined and documented as of each fiscal year end.

Adequate capital asset records and procedures are needed to safeguard assets and ensure those assets are accounted for properly.

This condition was similarly noted in our prior report.

WE AGAIN RECOMMEND the Oversight Division maintain capital asset records in a manner that allows balances to be reconciled from period to period (i.e. beginning balance, plus additions, less dispositions, equals the ending balance), and prepare a statement of changes in capital assets annually.

AUDITEE'S RESPONSE

The Joint Committee on Legislative Research - Oversight Division believes its records related to fixed assets are sufficient and provide the necessary information to locate and account for all assets. It should be noted that there were no instances of missing or misappropriated assets during the course of the audit.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
COMMITTEE ON LEGISLATIVE RESEARCH
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the Committee on Legislative Research on findings in the Management Advisory Report (MAR) of our prior audit report issued for the three years ended June 30, 1999. The prior recommendations which have not been implemented, but are considered significant, are repeated in the current MAR. Although the remaining unimplemented recommendations are not repeated, the Committee on Legislative Research should consider implementing those recommendations.

1. Distribution and Sale of Statutes

A. The Committee of Legislative Research distributed more than 5,000 free copies of the revised statutes and annual supplements to the various state agencies, court officials, and other government offices. This represented significantly more free copies than the minimum the committee was required to provide to those entities by law.

B. No documentation was maintained to support how the committee determined the price of the 1994 Revised Statutes or subsequent supplements.

Recommendation:

The Committee on Legislative Research:

A. Review the number of free copies of the statutes and supplements it distributes and consider requesting the various agencies/officials reevaluate their use of the statutes and the number of copies requested.

B. Maintain adequate supporting documentation to identify the costs and any profit factor considered in setting the prices of the statutes, supplements, and other items sold.

Status:

A. Partially implemented. The Committee has made an effort to reduce the number of free copies of the statutes and supplements distributed to government agencies/officials. In recent years, letters have been issued to those government agencies/officials asking them to limit the number of requested copies to those employees who use the statutes on a regular basis and reminding them that the statutes are available on the internet. While there has been a reduction in the number of free copies distributed, that reduction has not been significant. Although not repeated in the current MAR, our recommendation remains as stated above.

B. Implemented. The Committee maintained better supporting documentation of how they established the cost of the 2000 Revised Statutes and subsequent supplements. The Committee considered the cost of the statutes and the prices other states charge for statutes in determining the selling price of the Missouri statutes and supplements.

2. Statutory Revision Fund Expenditures

The Committee on Legislative Research approved expenditures of over $54,000 from the Statutory Revision Fund related to the purchase of computer equipment for the legislature. These expenditures did not represent proper uses of the fund's monies as identified in the statutes nor were they directly related to the operations or activities of the committee.

Recommendation:

The Committee on Legislative Research ensure expenditures from the Statutory Revision Fund are for the purposes specifically identified in the statutes or for other purposes directly related to its operations and activities.

Status:

Implemented. During the current audit period, we did not notice any similar expenditures being made from the Statutory Revision Fund.

3. Inventory Records and Procedures

A. Some supplements and various disks were not recorded on the Research Division's inventory listing.

B. The Research Division did not perform periodic reconciliations of the perpetual inventory balances, accounting for all inventory purchases, sales, and free copies issued.

C. Duties pertaining to the sale of statutes, supplements, and session laws and the related inventory records were not adequately segregated. One individual was responsible for handling these monies as well as maintaining the inventory records related to these items.

Recommendation:

The Research Division:

A. Include all items that are stored at the warehouse that are intended to be sold on the inventory listing. For those items which are deemed obsolete or unusable, the division should dispose of them properly and retain supporting documentation of the dispositions.

B. Ensure the inventory balances are reconciled periodically, accounting for all inventory purchases, sales and free copies issued. Any differences noted should be investigated and resolved on a timely basis.

C. Ensure the duties related to the sale of statutes and maintenance of inventory records are properly segregated to provide reasonable assurance that all transactions are accounted for properly.

Status:

A. Implemented.

B&C. Not implemented. See MAR finding number 3.

4. Fixed Assets Records and Procedures

A. The fixed asset records were not maintained in a manner which allowed balances to be reconciled from period to period.

B. Neither division performed reconciliations of fixed asset additions to equipment purchases per the Statewide Accounting for Missouri (SAM) system's expenditure reports.

C. The fixed asset records for both divisions did not consistently indicate the purchase cost and/or acquisition dates for all fixed assets.

Recommendation:

The Research Division and Oversight Division:

A. Maintain fixed asset records in a manner that allow balances to be reconciled from period to period (i.e. beginning balance, plus additions, less dispositions, equals the ending balance). In addition, each division should prepare a statement of changes in fixed assets annually.

B. Perform reconciliations of fixed asset additions to equipment purchases per the Statewide Accounting for Missouri (SAM) system reports.

C. Ensure the fixed asset records include all information required by state regulations.

Status:

A. Partially implemented. The Research Division has established the fixed asset records as was recommended in the previous audit; however, the Oversight Division has not done so. See MAR finding number 4.

B. Partially implemented. The Research Division has established the reconciliations as was recommended. During the audit period, the reconciliation of differences between the Oversight Division's capital asset records and SAM II system reports was not documented; however, the division's capital asset records and the SAM II system balances were in agreement at June 30, 2004, except for some capital asset items which had not yet been recorded on the SAM II system because of a timing difference. Although not repeated in the current MAR, the Oversight Division should ensure any differences between its capital asset records and SAM II records are reconciled and documented.

C. Implemented.

5. Personnel Policies and Procedures

A. The Committee on Legislative Research established a uniform personnel policy that provided sick leave benefits for its employees at a rate of 14 hours per month, rather than the 10 hours earned by most state employees. This resulted in the Committee certifying accrued sick leave balances to the state retirement system which were in excess of the amounts allowed by law.

B. The uniform personnel policy established a standard 35-hour workweek for its employees, compared to the 40-hour workweek required of most other state employees.

C. The Research Division had an informal policy requiring supervisors to prepare annual employee performance appraisals; however several personnel files reviewed did not contain employee performance appraisals, as required.

Recommendations:

The Committee on Legislative Research:

A. Amend its leave policy so employees earn 10 hours of sick leave per month, like other state employees. In addition, the committee should ensure hours of accumulated sick leave certified to the retirement system are consistent with state law.

B. Require its employees work 40 hours per week as required of most other state employees.

The Research Division:

C. Ensure employee performance appraisals are prepared annually in accordance with stated policy. In addition, the division should consider establishing a written performance appraisal policy to be included in the personnel manual.

Status:

A. Partially implemented. The Committee of Legislative Research revised its sick leave policy, effective August 2000, whereby employees now earn 10 hours of sick leave per month as was recommended. However, we noted excessive accumulated sick leave amounts continue to be certified to the state retirement system. See MAR finding number 2.

B. Partially implemented. The Oversight Division employees are currently required to work 40 hours per week; however, the Research Division does not require many of its employees to work 40 hours per week during that portion of the year after the legislative session. See MAR finding number 2.

C. Implemented.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
COMMITTEE ON LEGISLATIVE RESEARCH
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Committee on Legislative Research of the Missouri General Assembly was created as a permanent standing committee by an act of the Sixty-Second General Assembly.

The 1945 constitution gave the research committee constitutional standing and provided in Article III, Section 35 that the committee shall be a constitutional body of the General Assembly.

The committee is composed of twenty members of the General Assembly, ten appointed by the speaker of the House of Representatives and ten appointed by the president pro tem of the Senate. No major party may have more than six members appointed as members from either house.

The Research Division is directed by statute to maintain a legislative reference library; provide a research staff to make studies at the request of members of the General Assembly; and, upon written request of assembly members, to draft or to aid in drafting bills, resolutions, memorials, and amendments. The division is also responsible for revising and publishing the statutes at least every ten years and for publication of statutory supplements in years between revisions.

In 1984, House Bill No. 1087 was passed which required the committee to organize an Oversight Division to prepare fiscal notes and to conduct management and program audits of state agencies as directed by the General Assembly or the Committee on Legislative Research. Senate Bill No. 354, passed in 1985, provided for the employment of a director of research to assume administration of the necessary activities of the committee and a director to supervise the operation of the Oversight Division. In 1989, House Bill 493 was passed which gave the Oversight Division the responsibility to issue an annual report of state bonds or other evidences of indebtedness of state agencies and of entities of the state given authority by law to incur indebtedness.

The Oversight Division performed the duties as described until 1997, when the Missouri Supreme Court determined that it was unconstitutional for the Oversight Division to perform audits. Since that time, the division has discontinued performing audits and now conducts program evaluations.

The overall and primary purpose of the committee and its staff is to aid the individual legislators by furnishing technical assistance and factual information. The committee is not a policy-making group and it formulates no legislative program. Its staff renders only such technical and professional assistance as may be requested by the General Assembly or any of its members.

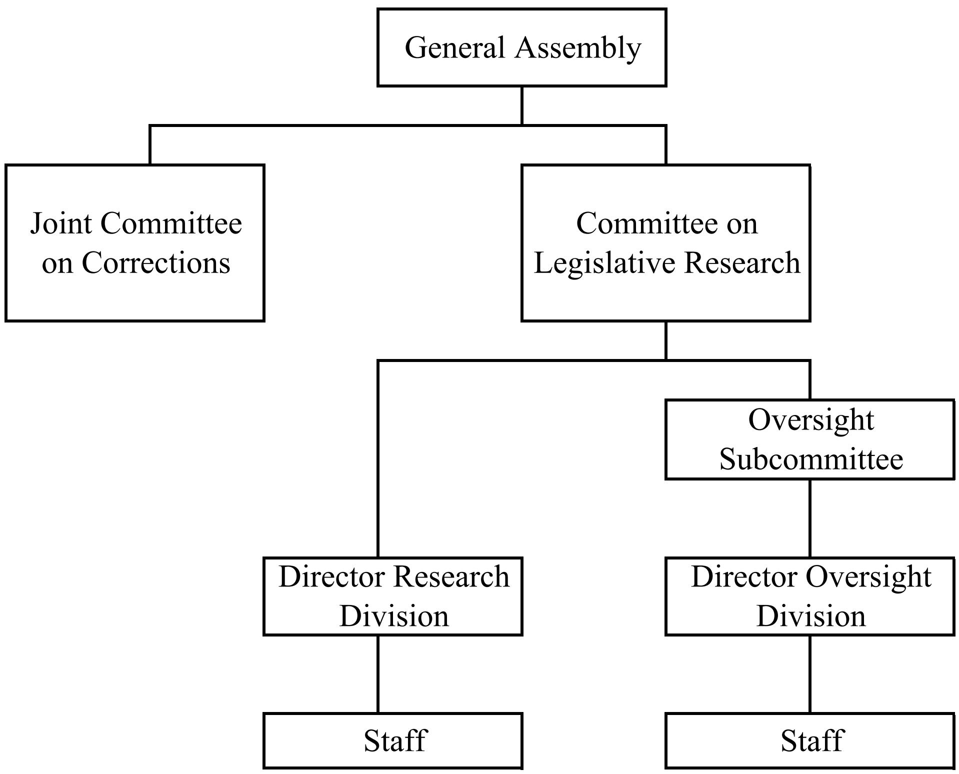
The Joint Committee on Corrections is authorized by provisions of Chapter 21, RSMo, and is comprised of six members of the Senate and six members of the House of Representatives. The Senate members are appointed by the president pro tem and the House members are appointed by the speaker. Its powers and duties are prescribed in Sections 21.440 through 21.465, RSMo.

Staff of the Research Division provide accounting and administrative support for this interim committee.

At June 30, 2004, the staff of the Committee on Legislative Research consisted of thirty-nine employees, twenty-six employed in the Research Division and thirteen employed in the Oversight Division. Donald Prost served as the Director of the Research Division from January 14, 1997 to January 7, 2004. Russell Hembree was appointed as Acting Director of the Research Division effective January 8, 2004, and he continues in that position. Jeanne Jarrett served as the Director of the Oversight Division from November 22, 1993 to January 10, 2002. Michael Wilson served as Acting Director of the Oversight Division from January 11, 2002 until June 24, 2002, when he was appointed Director of the division. He continues to serve in this position.

An organization chart for the Committee on Legislative Research follows.

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
COMMITTEE ON LEGISLATIVE RESEARCH
ORGANIZATION CHART
JUNE 30, 2004



Appendix A

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
COMMITTEE ON LEGISLATIVE RESEARCH
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,								
	2004			2003			2002		
	Appropriation Authority	Expenditures	Lapsed Balances *	Appropriation Authority	Expenditures	Lapsed Balances *	Appropriation Authority	Expenditures	Lapsed Balances *
GENERAL REVENUE FUND									
Committee on Legislative Research	$ 1,141,381	996,777	144,604	1,376,489	1,229,545	146,944	1,529,430	1,220,722	308,708
Legislative Research Published Statutes	162,264	144,731	17,533	336,280	156,338	179,942	373,644	162,263	211,381
Joint Committee Corrections	5,000	3,193	1,807	5,000	1,925	3,075	15,000	2,332	12,668
Legislative Research Oversight	699,200	614,370	84,830	864,178	679,679	184,499	909,662	716,574	193,088
Total General Revenue Fund-State	2,007,845	1,759,071	248,774	2,581,947	2,067,487	514,460	2,827,736	2,101,891	725,845
STATUTORY REVISION FUND									
Legslative Research-Publish Statutes	106,491	31,257	75,234	535,800	28,914	506,886	535,800	106,489	429,311
Total Statutory Revision Fund	106,491	31,257	75,234	535,800	28,914	506,886	535,800	106,489	429,311
Total All Funds	$ 2,114,336	1,790,328	324,008	3,117,747	2,096,401	1,021,346	3,363,536	2,208,380	1,155,156

* The lapsed balances included the following withholdings made at the Governor's request:

	Year Ended June 30,		
	2004	2003	2002
General Revenue Fund-State:			
Committee on Legislative Research	$ 34,241	41,295	275,297
Legislative Research Published Statutes	4,868	110,088	67,256
Joint Committee Corrections	0	150	2,700
Legislative Research Oversight	20,976	165,925	0
Total General Revenue Fund-State	$ 60,085	317,458	345,253

Appendix B

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
COMMITTEE ON LEGISLATIVE RESEARCH
COMPARATIVE STATEMENT OF EXPENDITURES BY DIVISION (FROM APPROPRIATIONS)

		Year Ended June 30,	
	2004	2003	2002
RESEARCH DIVISION EXPENDITURES			
Salaries and wages	$ 992,776	1,098,103	1,163,460
Travel, in-state	4,834	2,896	4,622
Travel, out-of-state	0	2,791	6,099
Supplies	40,160	62,625	49,215
Professional development	2,686	2,238	4,352
Communication services	868	7,683	12,156
Professional services	81,224	96,422	115,261
Housekeeping and janitorial services	7,540	6,960	6,960
Maintenance and repair services	7,076	36,621	18,152
Computer equipment	8,642	75,990	53,771
Office equipment	809	2,165	31,677
Other equipment	10,885	524	641
Equipment rental and leases	2,197	2,562	1,100
Services billed from other agencies	13,640	17,224	22,174
Refunds and other	2,621	1,918	2,166
Total Research Division	1,175,958	1,416,722	1,491,806
OVERSIGHT DIVISION EXPENDITURES			
Salaries and wages	586,939	649,431	658,232
Travel, in-state	262	1,252	4,113
Travel, out-of-state	0	1,861	2,738
Fuel and utilities	335	357	433
Supplies	3,234	3,458	13,789
Professional services	2,735	4,060	7,466
Communication services	417	1,000	1,079
Professional services	0	105	2,824
Housekeeping and janitorial services	5,884	3,900	4,260
Maintenance and repair services	2,743	1,199	1,842
Computer equipment	0	0	739
Office equipment	0	30	404
Equipment rental and leases	5,627	6,055	10,976
Services billed from other agencies	6,194	6,923	7,517
Other	0	48	162
Total Oversight Division	614,370	679,679	716,574
TOTAL EXPENDITURES	$ 1,790,328	2,096,401	2,208,380

Appendix C

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
COMMITTEE ON LEGISLATIVE RESEARCH
STATUTORY REVISION FUND
COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH AND INVESTMENTS

	Year Ended June 30,		
	2004	2003	2002
RECEIPTS			
Sales	$ 95,413	98,813	134,823
Total Receipts	95,413	98,813	134,823
DISBURSEMENTS			
Expense and equipment	31,257	28,914	106,489
Total Disbursements	31,257	28,914	106,489
RECEIPTS OVER (UNDER) DISBURSEMENTS	64,156	69,899	28,334
TRANSFERS			
Transfers to General Revenue Fund-State	219,455 *	6,022	12,031
Total Transfers	219,455	6,022	12,031
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS	(155,299)	63,877	16,303
CASH AND INVESTMENTS, JULY 1	467,146	403,269	386,966
CASH AND INVESTMENTS, JUNE 30	$ 311,847	467,146	403,269

* A transfer of $217,270 was made in fiscal year 2004 for expenses that should have been paid by the Statutory Revision Fund, but were paid from the General Revenue Fund in fiscal year 2003. In fiscal year 2005, a similar transfer was made for fiscal year 2004 expenses in the amount of $92,705.

Appendix D

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
COMMITTEE ON LEGISLATIVE RESEARCH
STATEMENT OF CHANGES IN CAPITAL ASSETS

	Balance July 1, 2001	Additions	Dispositions	Balance June 30, 2002	Additions	Dispositions	Balance June 30, 2003	Additions	Dispositions	Balance June 30, 2004
CAPITAL ASSETS										
Office equipment and furniture:										
Research Division	$ 312,287	76,968	(45,720)	343,535	63,674	(68,775)	338,434	5,609	(9,000)	335,043
Oversight Division	113,308	1,962	0	115,270	17,460	(29,152)	103,578	10,885	0	114,463
Total Capital Assets	$ 425,595	78,930	(45,720)	458,805	81,134	(97,927)	442,012	16,494	(9,000)	449,506