

The seal of the Missouri State Auditor is visible in the background, featuring a central figure holding a scale and a sword, surrounded by the text "SEAL OF THE MISSOURI STATE AUDITOR" and "UNITED WE STAND DIVIDED WE FALL".

# 2019 ANNUAL REPORT

A professional portrait of Nicole Galloway, CPA, a woman with long reddish-brown hair, wearing a dark blue blazer over a green top. She is standing outdoors in front of stone steps, with her hands clasped in front of her.

**Nicole Galloway, CPA**  
MISSOURI STATE AUDITOR'S OFFICE



**On Jan. 14, 2019, Auditor Galloway was sworn in for a second term as Missouri's 38th State Auditor.**

## *Letter from Nicole Galloway*

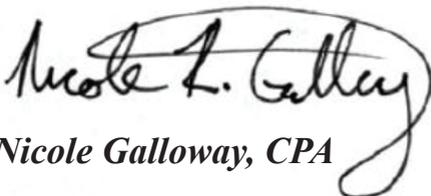
As your State Auditor, I am dedicated to being a strong, independent watchdog for all Missourians. Taxpayers deserve to get the most from their government. And each day, I bring my experience as a certified public accountant and certified fraud examiner to work for you.

We released 132 reports in 2019 that hold government at all levels accountable to you — the citizens they serve. These reports revealed evidence of theft and abuse of taxpayer dollars, highlighted inefficiencies in government and brought to light mismanagement affecting services to the public. Audits get results, and these efforts have resulted in changes to operations, more effective processes, and, at times, criminal charges brought against corrupt public officials. Our audits have identified more than \$350 million in government waste, fraud, abuse and mismanagement.

My dedicated team works each day to hold government accountable, and I am proud of our integrity and professionalism. My office has been peer reviewed or audited five times during my term as Auditor and on each occasion, we have received a clean review.

I've worked to ensure my team has the tools and expertise to expose wrongdoing. During my swearing in at the start of 2019, I announced the creation of the Public Corruption and Fraud Division. The team includes dedicated auditors and attorneys, law enforcement professionals, forensic auditing specialists and certified fraud examiners. As of the close of 2019, my audits resulted in 46 criminal charges against public officials.

It is my honor to serve as your advocate, ensuring government at all levels is efficient, effective and transparent.



*Nicole L. Galloway*

***Nicole Galloway, CPA***

# Duties of the State Auditor

The State Auditor's Office is Missouri's independent watchdog for taxpayers. The Missouri Constitution and state law give the State Auditor authority to audit:

- All state agencies, boards and commissions
- Public employee retirement systems
- Public employee healthcare systems
- State court system
- School districts
- Counties that do not have a county auditor
- Other political subdivisions upon petition by the voters of those subdivisions

The State Auditor's Office works to ensure the proper use of public funds and to improve the efficiency and effectiveness of Missouri government.

Audits examine financial accountability; look for waste, abuse and fraud; and evaluate whether government organizations and programs are achieving their purposes and operating economically and efficiently. All audits are performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

*Since 2015, more than  
\$350 million  
has been uncovered  
in government waste,  
mismanagement,  
fraud & abuse.*

*46 criminal counts have  
alleged corruption against  
public officials.*

Each year, the State Auditor's Office receives hundreds of whistleblower tips from citizens, public employees and government officials. We encourage individuals to contact us to report potential fraud and abuse in their government.

Whistleblowers can submit information by emailing [moaudit@auditor.mo.gov](mailto:moaudit@auditor.mo.gov), calling toll-free **1-800-347-8597** or using an online reporting form at [auditor.mo.gov/hotline](http://auditor.mo.gov/hotline).



# Fighting Public Corruption

## **Missing tax payments in Madison County result in stealing charges**

An audit that began with a whistleblower complaint discovered more than \$13,000 in property tax payments were missing from the Madison County Collector's Office. The tax bills were paid but then deleted from the system, and the payments were not deposited into county accounts. A lack of oversight allowed the theft to continue for more than a year. The State Auditor's Office provided information to law enforcement, and stealing charges were filed against the former deputy collector. A follow-up review found the County Commission and Collector had made progress implementing the audit's recommendations.

## **Misappropriation of \$286,000 in Plattsburg road district**

The former bookkeeper of a northwest Missouri road district was indicted for theft after an audit showed she misappropriated more than \$286,000 over a seven-year period. The review determined the former secretary/treasurer of the Plattsburg Special Road District falsified financial statements to hide some of her misappropriations and took other steps to cover up her activities. More than \$125,000 in electronic payments from district funds was used to pay her personal credit card bills, including more than \$14,000 for travel and entertainment to vendors such as Carnival Cruise Lines, the Kansas City Royals and Silver Dollar City. Another \$131,000 was paid to the official's private company. In November, the former bookkeeper was indicted on a criminal charge of theft.

## **CID funds paid for private construction, including \$10,000 beer cave**

Several former board members of the Black Mountain community improvement district (CID) in Van Buren used almost \$300,000 in taxpayer funds to pay business debts and for private business improvements and construction, an audit found. In 2013 and 2014, CID funds were used to make \$125,972 worth of improvements to a convenience

store owned by three of the board members, including new fuel pumps, a new canopy over the pumps and a \$10,000 walk-in beer cave. Six months after the work was completed, the convenience store was sold to new owners. Other funds were used for private business loans to purchase equipment and inventory for resale, and to provide cash flows for operational expenses. The State Auditor's Office sent the audit findings to state and federal law enforcement authorities.

## **Progress made in Winona in response to audits**

Follow-up reviews to audits of the city of Winona and the city's municipal division showed progress being made to safeguard public resources. In the audit of the city, the State Auditor's Office had discovered missing money and suspicious activity over several years, resulting in the former city clerk being charged with receiving stolen property. The audit of the municipal court found the city owed the state of Missouri for excess traffic violation collections because officials miscalculated general operating revenue. Better oversight for greater accountability is now in place, the follow-up reports found. In July, the former city clerk received a jail sentence and will be required to pay restitution.

## **Miller Police Department missing firearms, other property; former chief charged**

An audit of the Miller Police Department by the Public Corruption and Fraud Division discovered numerous problems: more than \$18,000 in questionable mileage reimbursements, fuel purchases and credit charges; more than \$24,000 in improper payments to the former chief's brother, who was a lieutenant on the force; and several pieces of city-owned property — including firearms and computers — in the chief's home. The former chief faces criminal charges, and the city received \$6,000 in restitution as part of the resolution of the case involving the lieutenant. A follow-up report showed the city is making progress on the recommendations from the State Auditor's Office to have better oversight of accounting and payroll.

*"It is my job to tell Missourians who is corrupting our government, and to hold the powerful accountable to the people of this state. Each time we expose corruption, it puts others on notice that their wrongdoing will see the light of day."*  
**-Auditor Galloway**



# Protecting Taxpayers

## Audit highlights DOR problems for 2018 returns

A 2018 audit examined problems with the timeliness of income tax refunds and found the state of Missouri was deliberately delaying paying refunds to give priority to other spending. After this audit, Auditor Galloway worked with legislators to address the disparity between the interest rate taxpayers received on late refunds, and the interest rate charged to taxpayers for late payment.

As a follow-up to that report, a second audit was released in April 2019 looking at the refunds. The audit found another problem: uncertainty and confusion related to the state's individual income tax withholding tables. The report found that changes made to withholdings were done unlawfully and would result in over-withholding for the majority of individual Missouri taxpayers. The audit found the DOR failed to adequately notify Missourians on how changes to withholdings would affect them.

## Auditor seeks answers for taxpayers

Also in 2019, more than 3,000 Missourians contacted the Whistleblower Hotline about months-long delays in getting their state tax refunds. The State Auditor's Office asked for answers and action from the Department of Revenue and the Governor's Office to ensure that citizens received what was theirs.

The growing number of complaints from taxpayers to the Whistleblower Hotline showed the timeliness of refunds continued to be a problem. Missourians who were unable to get answers from the Department of Revenue contacted the State Auditor's Office; many of those asking for help were seniors, had disabilities or lower incomes.

Without satisfactory information coming from the DOR, Auditor Galloway sent letters to the Governor in July, asking him to take action to help those citizens still waiting for their tax refunds.



*“Taxes are processed at the same time every year. There is no excuse for taxpayers to be experiencing this level of dysfunction.”*

*-Auditor Galloway*

**Auditor Galloway calls on administration to take responsibility for misleading Missourians on their taxes**

**Audit finds January 2019 withholding changes made unlawfully; will result in over-withholding for more than half of Missouri taxpayers**

**JEFFERSON CITY, Mo (April 2, 2019) –** Missouri State Auditor Nicole Galloway today released an audit detailing uncertainty and confusion related to the state's individual income tax withholding tables. The report found that changes made to withholdings in January were done unlawfully and will result in over-withholding for the majority of individual Missouri taxpayers.

“For more than six months, this administration failed to communicate with Missourians about changes to withholdings that would affect their bank account. Then, despite the fact that we had already announced the changes, they attempted to downplay the issues,” Auditor Galloway said. “The Department of Revenue has been less than forthcoming in its responses to the Whistleblower Hotline. Instead, the Department of Revenue has been more than forthcoming in its attempts to keep the public in the dark.”

## Since last May, more than 3,000 citizens contacted the Whistleblower Hotline with concerns about their tax refunds

*“Shouldn't we be treated with the same respect as any other taxpayer with the expectation that our return will be processed in a timely manner?”*

—July 2019

*“The delay of our state income tax return has caused unnecessary financial hardships on our family.”*

—September 2019

*“I am a senior citizen trying to live on Social Security. I NEED that refund. ... What's going on? Doesn't a poor old senior citizen deserve better?”*

—March 2019

*“I am disabled and undergoing cancer and radiation treatments. This money is desperately needed.”*

—December 2019

# Audits Get Results

## Callaway County officials take action on audit recommendations

A 2018 audit determined the former Callaway County Collector misappropriated more than \$300,000. She was sentenced to 30 months in prison and ordered to pay nearly \$380,000 in restitution. A follow-up report from Auditor Galloway found officials in Callaway County have taken action on her recommendations to increase oversight and better protect taxpayer dollars. Following the audit recommendations, county officials worked with law enforcement on the prosecution and obtained more than \$316,000 for taxpayers through the former county collector's surety bond. The follow-up report also found that the appropriate officials were working on improving oversight measures to ensure that public resources are safeguarded and accounted for. Auditor Galloway praised the officials for implementing the recommendations and working to restore the trust of citizens.

## Missourians safer as sex offender registration compliance improves

A follow-up report by Auditor Galloway found stricter enforcement and increased compliance with Missouri's sex offender registry, after a 2018 audit raised concerns about the accuracy of the public database. She said actions by law enforcement and changes to state law to follow the audit recommendations are making Missourians safer.

The 2018 audit found more than 1,200 registered sex offenders failed to follow the law requiring them to register, verify their address and other information at regular intervals, and notify law enforcement officials if they move. The report also highlighted a need to improve management of the database and weaknesses in current state laws.

Following the audit, law enforcement worked to

better locate and hold accountable sex offenders not following the law, as well as take steps to make sure information in the database is current. The number of noncompliant sex offenders decreased by 21% since the original audit report, with more than half of the decrease attributed to reductions in Jackson County and St. Louis City. The Missouri State Highway Patrol also took action to improve updates to the database. Auditor Galloway said she greatly appreciated the work of state and local law enforcement officials to keep Missourians both safe and informed to make decisions to protect themselves and their families.

Following the audit, Auditor Galloway also urged Missouri legislators to strengthen the sex offender registration law by requiring background checks for school volunteers. That bill became law in 2019.

## \$90 million healthcare fraud uncovered by audit results in federal guilty plea

A nationwide billing scheme uncovered through an audit of a northern Missouri hospital resulted in the hospital's former CEO pleading guilty to a federal charge of conspiring to commit healthcare fraud. The audit found \$90 million in illegal billings were passed through the 15-bed hospital. It was the largest fraud exposed in the history of the State Auditor's Office.

***"This all began with our audit of a small county-owned hospital. Our work helped expose a nationwide conspiracy that led to these federal criminal charges. Healthcare fraud impacts costs for all Missourians."***

***-Auditor Galloway***



State Auditor Nicole Galloway welcomed officials from more than 40 Missouri municipalities for Local Government Day in Jefferson City. The annual event focuses on partnering with local governments to promote transparency and prevent issues before they happen.



During a public meeting, Auditor Galloway presented the findings from a citizen-requested audit of De Soto School District #73. The district committed to changing processes and procedures in response to the audit findings.

# Increasing Government Accountability



## At Auditor's urging, lawmakers pass school volunteer background check requirements

Auditor Galloway praised a change to Missouri law that she said will help protect children at their schools. The change requires school districts to ensure that volunteers undergo criminal background checks before being left alone with children. The Auditor urged legislators to add the requirement after her audit of the state's sexual offender registration program found background checks were mandatory for school employees, but not volunteers.

"I'm very pleased that legislators made this change quickly, not only as the Auditor who found the problem but also as a parent who wants my children — and all children — to be safe when they're at school," Auditor Galloway said. "School safety isn't a partisan issue, and this is an important step forward to protect our kids."

The new law requires school districts to ensure that a criminal background check is conducted for all

volunteers who may be periodically left alone with students. The bill says those volunteers include, but are not limited to, persons who regularly assist in the office or library, mentor or tutor students, coach or supervise a school-sponsored activity before or after school, or chaperone students on an overnight trip.

## Auditor calls on local governments to ban self-deleting messaging apps

Saying that Missourians deserve openness and transparency from all levels of government, Auditor Galloway encouraged all local governments to prohibit the use of self-deleting applications by officials and employees while conducting public business. In a letter sent to Missouri's counties and municipalities, she said banning the use of these applications bolsters the public's trust in their government.

"As we've seen in recent years, the use of self-deleting applications allows public business to be conducted in the shadows," Auditor Galloway said.

"Banning the use of these programs isn't just good government, it's common sense."

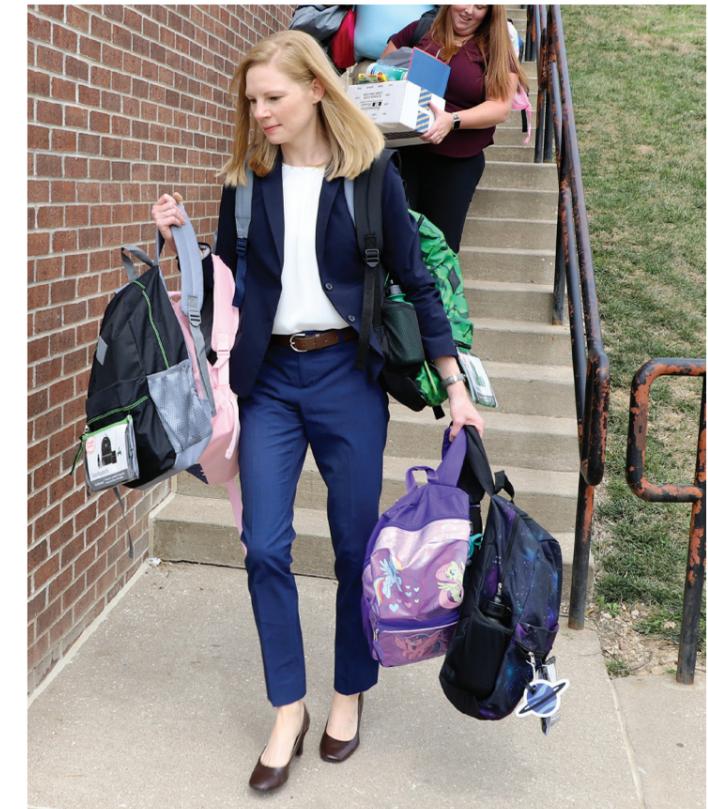
The letter included electronic communications guidelines adopted by the State Records Commission on a bipartisan vote. The guidelines, which stipulate that use of auto-deleting applications should be prohibited by policy, were also approved by the Local Records Board.

In another letter, Auditor Galloway urged the five other statewide officials to join her in encouraging the legislature in 2020 to strengthen the Missouri Sunshine Law by banning the use of self-deleting applications for public business. The legislation was passed by the House in 2019, but died in the Senate.

## Auditor continues push for transparency in state contracts

Auditor Galloway sent a letter to the Governor in June about legislation that would lead to less transparency and fairness in state contracts. The bill (which the Governor signed) shrinks the pool of competitive contracts available to Missouri businesses and individuals, reduces the number of bids required to be publicly advertised, and no longer requires state government to advertise bids publicly unless the contract is \$100,000 or greater.

In the letter, the Auditor also asked the Governor to issue an executive order that could help eliminate the problem of dark money in government contracting by requiring disclosure of connections between those who make larger donations to dark money groups, and state contracts they receive.



Above: For the third year in a row, State Auditor's Office staff supported the local chapter of Big Brothers Big Sisters by donating backpacks and school supplies. These items go to students in need as they start their school year.



Left: Auditor Galloway spoke to members of Greater Missouri Leadership Foundation at their annual conference to discuss the importance of women in leadership.

# Audits in Progress

## City of St. Louis

As part of the comprehensive audit requested by the City of St. Louis Board of Aldermen in 2018, the State Auditor's Office has issued audits of the Board of Aldermen, the Department of Personnel, the Supply Division, the Board of Public Service and the Information Technology Services Agency. The office also released an audit of local taxing districts in St. Louis as part of examining economic incentives in the city. Audit work is ongoing and reports will be issued on all city departments and elected offices.

## St. Louis County

In May, the St. Louis County Council unanimously approved a resolution requesting that the State Auditor's Office conduct an independent review of county government. Auditor Galloway said the Public Corruption and Fraud Division of her office would ensure a full accounting of taxpayer dollars after former County Executive Steve Stenger pleaded guilty to three federal counts in a pay-to-play scheme. The audit is focusing on contracting and procurement.

## Greene County

An audit of Missouri's fourth-most populous county, Greene County, is underway, after a formal request from the county commission in early 2019. Auditor Galloway asked the commission to authorize the audit after a whistleblower complaint alleged improper use of public resources in connection with a ballot issue. Auditor Galloway said the citizens of Greene County

can be assured her office will conduct this audit with the highest professional standards, as it always does.

## Clay County

In 2018, citizens from Clay County, the fifth-most populous county in Missouri, presented a petition containing thousands of signatures to the State Auditor's Office, requesting a comprehensive audit the county. The audit began later that year. While audit work has continued, county officials have delayed the audit process by refusing to provide information commonly requested in audits, and by filing a legal action questioning the legal authority of the Auditor to perform the comprehensive audit. At the end of October 2019, the court dismissed the lawsuit, ruling that the Auditor's Office has the legal authority to perform the audit. In November, Auditor Galloway wrote an open letter to the citizens of Clay County to assure them of her commitment to continue and complete the audit in order to get answers for them. Audit work in the county is ongoing.

## Jackson County

An audit requested by the Jackson County Legislature continues. A resolution passed by the county legislature to grant authority for the audit specifically highlighted several areas of concern including county finances and procurement processes. Auditor Galloway said the independent review will examine whether the county is operating efficiently, effectively and in a way that best serves the citizens of Jackson County, the state's second-largest county.

## About the Public Corruption & Fraud Division

The Public Corruption and Fraud Division is a unit within the Missouri State Auditor's Office dedicated to rooting out fraud, waste and abuse in state, county and local government.

The division is made up of attorneys, auditors and investigators and includes forensic auditing specialists and certified fraud examiners. Under the leadership of Auditor Galloway, the team has a demonstrated history of working with local, state and federal law enforcement to pursue justice for taxpayers.