

**MISSOURI OFFICE OF THE STATE AUDITOR**

FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

**FOR THE YEARS ENDED  
JUNE 30, 2017 AND 2016**

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A MEASURABLE DIFFERENCE™ **Independent Auditor's Report**

Members of the General Assembly and  
Honorable Nicole Galloway, CPA,  
Missouri State Auditor  
Jefferson City, Missouri

**Report on the Financial Statements**

We have audited the accompanying financial statements, as identified in the table of contents, of the *Missouri Office of the State Auditor* (the "Office") as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting and the State of Missouri's legal budgetary basis of accounting as described in Note A; this includes determining that the basis of accounting as described in Note A is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the State Auditor - Federal Fund and Petition Audit Revolving Trust Fund, the receipts of the General Revenue Fund – State, the appropriations and expenditures of the various funds, and general capital assets of the *Missouri Office of the State Auditor* as of and for the years ended June 30, 2017 and 2016, in conformity with the basis of accounting discussed in Note A.

## **Basis of Accounting**

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared, pursuant to RSMo Section 29.351.1 as requested by the Missouri General Assembly, on the cash and budgetary basis of accounting, which are bases of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

## **Prior Period Financial Statements**

The financial statements of the *Missouri Office of the State Auditor* as of and for the year ended June 30, 2015, were audited by other auditors whose report dated, June 10, 2016, expressed an unmodified opinion on those statements.

*Brown Smith Wallace, LLP*

St. Louis, Missouri  
April 19, 2018

**Combined Statement of Receipts Disbursements and  
Changes in Cash and Investments**

For the Year Ended June 30, 2017

	State Auditor Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
<b>Receipts</b>			
Audit fees	\$ 813,473	\$ 146,691	\$ 960,164
<b>Total Receipts</b>	<b>813,473</b>	<b>146,691</b>	<b>960,164</b>
<b>Disbursements</b>			
Personal service	597,805	133,704	731,509
Employee fringe benefits	262,931	53,758	316,689
Expense and equipment	30,123	17,102	47,225
<b>Total Disbursements</b>	<b>890,859</b>	<b>204,564</b>	<b>1,095,423</b>
<b>Receipts Over (Under) Disbursements</b>	<b>(77,386)</b>	<b>(57,873)</b>	<b>(135,259)</b>
<b>Cash and Investments, July, 1, 2016</b>	<b>961,536</b>	<b>947,631</b>	<b>1,909,167</b>
<b>Cash and Investments, June 30, 2017</b>	<b>\$ 884,150</b>	<b>\$ 889,758</b>	<b>\$ 1,773,908</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Combined Statement of Receipts Disbursements and  
Changes in Cash and Investments**

For the Year Ended June 30, 2016

	State Auditor Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
<b>Receipts</b>			
Audit Fees	\$ 880,763	\$ 319,569	\$ 1,200,332
<b>Total Receipts</b>	<b>880,763</b>	<b>319,569</b>	<b>1,200,332</b>
<b>Disbursements</b>			
Personal service	590,495	197,067	787,562
Employee fringe benefits	262,472	89,028	351,500
Expense and equipment	30,120	35,106	65,226
<b>Total Disbursements</b>	<b>883,087</b>	<b>321,201</b>	<b>1,204,288</b>
<b>Receipts Over (Under) Disbursements</b>	<b>(2,324)</b>	<b>(1,632)</b>	<b>(3,956)</b>
<b>Cash and Investments, July, 1, 2015</b>	<b>963,860</b>	<b>949,263</b>	<b>1,913,123</b>
<b>Cash and Investments, June 30, 2016</b>	<b>\$ 961,536</b>	<b>\$ 947,631</b>	<b>\$ 1,909,167</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Comparative Statements of Receipts**  
**General Revenue Fund - State**

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Bond registration	\$ 164,549	\$ 166,770
Audit fees	6,041	78,160
Miscellaneous	<u>1,298</u>	<u>1,077</u>
 Total	 <u>\$ 171,888</u>	 <u>\$ 246,007</u>

The accompanying notes are an integral part of these consolidated financial statements.

MISSOURI OFFICE OF THE STATE AUDITOR

Exhibit C

Comparative Statements of Appropriations and Expenditures

For the Years Ended June 30, 2017 and 2016

	2017			2016		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
<b>General Revenue Fund - State</b>						
Personal service	\$ 5,573,479	\$ 5,156,664	\$ 416,815	\$ 5,260,426	\$ 5,071,060	\$ 189,366
Expense and equipment	1,107,859	1,010,866	96,993	1,307,859	1,140,835	167,024
Auditor statewide leasing	8,346	6,556	1,790	8,339	7,542	797
Auditor state owned building	179,235	173,858	5,377	178,285	172,936	5,349
<b>Total General Revenue Fund</b>	<b>6,868,919</b>	<b>6,347,944</b>	<b>520,975</b>	<b>6,754,909</b>	<b>6,392,373</b>	<b>362,536</b>
<b>State Auditor - Federal Fund</b>						
Personal service	888,870	597,805	291,065	871,442	590,495	280,947
Expense and equipment	30,123	30,123	-	30,123	30,120	3
<b>Total State Auditor - Federal Fund</b>	<b>918,993</b>	<b>627,928</b>	<b>291,065</b>	<b>901,565</b>	<b>620,615</b>	<b>280,950</b>
<b>Conservation Commission Fund</b>						
Personal service	45,743	45,705	38	44,846	44,846	-
Expense and equipment	2,611	2,609	2	2,611	2,608	3
<b>Total Conservation Commission Fund</b>	<b>48,354</b>	<b>48,314</b>	<b>40</b>	<b>47,457</b>	<b>47,454</b>	<b>3</b>
<b>Park Sales Tax Fund</b>						
Personal service	22,847	22,713	134	22,399	22,399	-
<b>Total Parks Sales Tax Fund</b>	<b>22,847</b>	<b>22,713</b>	<b>134</b>	<b>22,399</b>	<b>22,399</b>	<b>-</b>
<b>Soil and Water Sales Tax Fund</b>						
Personal service	22,038	21,911	127	21,606	21,606	-
<b>Total Soil and Water Sales Tax fund</b>	<b>22,038</b>	<b>21,911</b>	<b>127</b>	<b>21,606</b>	<b>21,606</b>	<b>-</b>
<b>Petition Audit Revolving Trust fund</b>						
Personal service	861,847	133,704	728,143	844,948	197,067	647,881
Expense and equipment	31,616	13,201	18,415	31,616	31,574	42
<b>Total Petition Audit Trust Fund</b>	<b>893,463</b>	<b>146,905</b>	<b>746,558</b>	<b>876,564</b>	<b>228,641</b>	<b>647,923</b>
<b>Total All Funds</b>	<b>\$ 8,774,614</b>	<b>\$ 7,215,715</b>	<b>\$ 1,558,899</b>	<b>\$ 8,624,500</b>	<b>\$ 7,333,088</b>	<b>\$ 1,291,412</b>

The lapsed balances include the following withholds made at the Governor's request:

	2017	2016
General Revenue Fund - State		
Auditor statewide leasing	\$ 250	\$ 250
Auditor state owned building	5,377	5,349
<b>Total General Revenue Fund - State</b>	<b>\$ 5,627</b>	<b>\$ 5,599</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Statements of Changes in General Capital Assets**

For the Years Ended June 30, 2017 and 2016

	Office Equipment	Motor Vehicles	Total
<b>Balance, July 1, 2015</b>	\$ 828,799	\$ 19,576	\$ 848,375
Additions	156,972	-	156,972
Dispositions	(61,226)	-	(61,226)
<b>Balance, June 30, 2016</b>	924,545	19,576	944,121
Additions	180,531	-	180,531
Dispositions	(113,153)	-	(113,153)
<b>Balance, June 30, 2017</b>	<u>\$ 991,923</u>	<u>\$ 19,576</u>	<u>\$ 1,011,499</u>

The accompanying notes are an integral part of these consolidated financial statements.

# MISSOURI OFFICE OF THE STATE AUDITOR

## Notes to Financial Statements

June 30, 2017 and 2016

(See Independent Auditor's Report)

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### Note A – Summary of Significant Accounting Policies

#### **Reporting Entity and Basis of Presentation**

The accompanying financial statements present only selected data for each fund of the *Missouri Office of the State Auditor* (the "Office").

Receipts, disbursements, and changes in cash and investments are presented in Exhibits A.1 and A.2 for the State Auditor - Federal Fund and Petition Audit Revolving Trust Fund. Appropriations from these funds are expended by or for the Office for restricted purposes.

The "Total (Memorandum Only)" column presented in the Exhibits A.1 and A.2 is additional analytical data. Because this column does not identify the restrictions that exist by fund, it should be read only with reference to the details of each fund.

Receipts are presented in Exhibit B for the General Revenue Fund - State. Receipts include monies the Office collects during its normal activities and remits to the fund. These amounts are not necessarily related to appropriations.

Appropriations, presented in Exhibit C, are not separate accounting entities. They do not record the assets, liabilities, and net assets or other balances of the related funds but are used only to account for and control the Office's expenditures from amounts appropriated by the General Assembly. Expenditures are for each appropriation and may not reflect the total cost of the related activity. Other direct and indirect costs provided by the Office and other state agencies are not allocated to the applicable fund or program.

Capital assets presented in Exhibit D, which include equipment and vehicles, are valued at historical cost or estimated historical cost if actual historical cost is not available. The estimate of historical cost was based on current appraised value indexed to the date of acquisition. Donated capital assets are reported at estimated fair value at the time received. The capitalization threshold for capital assets is \$1,000.

#### **Basis of Accounting**

The Statements of Receipts, Disbursements, and Changes in Cash and Investments, Exhibits A.1 and A.2, prepared on the cash basis of accounting, present amounts when they are received or disbursed.

The Comparative Statements of Receipts, Exhibit B, also prepared on the cash basis of accounting, present amounts when received.

# MISSOURI OFFICE OF THE STATE AUDITOR

## Notes to Financial Statements – Continued

June 30, 2017 and 2016

(See Independent Auditor's Report)

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### Note A – Summary of Significant Accounting Policies (Continued)

#### **Basis of Accounting (Continued)**

The Comparative Statements of Appropriations and Expenditures, Exhibit C, are presented on the State's legal budgetary basis of accounting. Expenditures generally consist of amounts paid by June 30, with no provision for lapse period expenditures unless the Office of Administration approves an exception. Amounts encumbered at June 30 must be either canceled or paid from the next year's appropriations.

The General Assembly may authorize continuous (biennial) appropriations, for which the unexpended balances at June 30 of the first year of the 2-year period are re-appropriated for expenditure during the second year. Therefore, such appropriations have not lapsed balances at the end of the first year.

The Statement of Changes in General Capital Assets, Exhibit D, are also prepared on the cash basis of accounting.

The cash basis of accounting and the budgetary basis of accounting differ from accounting principles generally accepted in the United States of America. Those principles require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

#### **Fiscal Authority and Responsibility**

The Office administers transactions in the funds listed below. The State Treasurer, as fund custodian, and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

State Auditor - Federal Fund: This fund receives reimbursements from other state agencies for the Office's audits of programs funded by the federal government. Receipts are recognized at the time payments are received. As funds become available, General Revenue Fund - State costs are offset by expenditures from this fund. Appropriations from this fund represent expenditure limitations. However, expenditures are also limited by the fund balance. If this fund were not reauthorized by the General Assembly, the unexpended balance would be due to the General Revenue Fund - State.

# MISSOURI OFFICE OF THE STATE AUDITOR

## Notes to Financial Statements – Continued

June 30, 2017 and 2016

(See Independent Auditor's Report)

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### Note A – Summary of Significant Accounting Policies (Continued)

#### Fiscal Authority and Responsibility (Continued)

Petition Audit Revolving Trust Fund: This fund receives reimbursements from political subdivisions for the Office's petition audits. Receipts are recognized at the time payments are received. Appropriations from this fund represent expenditure limitations. However, expenditures are also limited by the fund balance. Unexpended balances exceeding \$1,000,000 at the end of any biennium lapse to the credit of the General Revenue Fund - State. Voters of other political subdivisions such as municipalities or school districts may petition the Office to perform an audit of the political subdivision. The cost of the petition audit is paid by the political subdivision.

General Revenue Fund - State: The Office receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used for the basic operation of the Office, including those programs and services that have no other funding source. These appropriations also may be used to initially fund, or to provide matching funds or support for, programs paid wholly or partially from other sources.

Conservation Commission Fund: Appropriations from this fund authorize disbursements for audit services related to the Missouri Conservation Commission and the Department of Conservation.

Parks Sales Tax Fund: Appropriations from this fund authorize disbursements for audit services related to State park services.

Soil and Water Sales Tax Fund: Appropriations from this fund authorize disbursements for audit services related to soil and water conservation.

# MISSOURI OFFICE OF THE STATE AUDITOR

## Notes to Financial Statements – Continued

June 30, 2017 and 2016

(See Independent Auditor's Report)

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### Note A – Summary of Significant Accounting Policies (Continued)

#### Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System ("MOSERS"). Employees hired after January 1, 2011, are required to contribute to the retirement plan. Employees may also participate in the State's health care, optional life insurance, cafeteria, and deferred compensation and deferred compensation incentive plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. Payments to the Unemployment Compensation Trust Fund are made by the Office when former employees are awarded unemployment compensation benefits. The deferred compensation plan involves employee payroll deferrals and the deferred compensation incentive plan involves a state contribution for each employee who participates in the deferred compensation plan and has been employed by the State for at least one year. Employer contributions to the deferred compensation incentive plan were suspended by the State effective March 1, 2010 and have not been restored as of June 30, 2017.

The State's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and Medicare taxes; health care premiums; and the deferred compensation incentive amount.

Employee fringe benefits in the financial statements at Exhibit A are the transfers from the State Auditor - Federal Fund and the Petition Audit Revolving Trust Fund for costs related to salaries paid from those funds. Transfers related to benefits based on salaries are not appropriated by agency and thus are not presented in the financial statements at Exhibit C.

#### Subsequent Events

Management has evaluated the impact on the financial statements, if any, of subsequent events through April 19, 2018. Management is not aware of any subsequent events that would have an impact on the financial statements.

# MISSOURI OFFICE OF THE STATE AUDITOR

## Notes to Financial Statements – Continued

June 30, 2017 and 2016

(See Independent Auditor's Report)

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### Note B – Cash and Cash Equivalents

The cash and investment balances of the State Auditor - Federal Fund and the Petition Audit Revolving Trust Fund are pooled with other state funds and invested by the State Treasurer.

### Note C – Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibits A.1 and A.2 reconcile to appropriated expenditures on Exhibit C as follows:

	State Auditor – Federal Fund Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
Disbursements Per Exhibit A.1 and A.2	\$ 890,859	\$ 883,087
Employee Fringe Benefits	<u>(262,931)</u>	<u>(262,472)</u>
Expenditures Per Exhibit C	\$ <u>627,928</u>	\$ <u>620,615</u>
	Petition Audit Revolving Trust Fund Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
Disbursements Per Exhibit A.1 and A.2	\$ 204,564	\$ 321,201
Employee Fringe Benefits	(53,758)	(89,028)
Cost Allocation Plan	<u>(3,901)</u>	<u>(3,532)</u>
Expenditures Per Exhibit C	\$ <u>146,905</u>	\$ <u>228,641</u>

**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***

Members of the General Assembly and  
Honorable Nicole Galloway, CPA,  
Missouri State Auditor  
Jefferson City, Missouri

We have audited, in accordance with the 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 special purpose financial statements of the *Missouri Office of the State Auditor* (the "Office") as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Office'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or 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 significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *Missouri Office of the State Auditor's* financial statements are free of 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 result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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 Office'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 Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Brown Smith Wallace, LLP*

St. Louis, Missouri  
April 19, 2018

## **Performance Audit**



## Performance Audit Report

Members of the General Assembly and  
Honorable Nicole Galloway, CPA,  
Missouri State Auditor  
Jefferson City, Missouri

Pursuant to section 29.351, RSMO – Audit of the state auditor’s office, we have conducted a performance audit of the accounts, functions, programs and management of the Missouri office of the State Auditor (the “SAO”) for the Missouri General Assembly. In the previous section, we have issued our audit report on the financial statements and our report on the 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. The purpose of this performance audit is to report on the economy, efficiency and operating performance of the SAO.

Accordingly, our analysis has, per specific request of the Missouri General Assembly in the request for proposal dated October 27, 2017, included the following performance areas for the period July 1, 2015 through June 30, 2017:

- Procurement procedures for acquiring goods and services.
- Travel expenditures, employee expense accounts, and oversight of departmental purchasing cards.
- Accuracy and completeness of the annual Comprehensive Annual Financial Report (CAFR) survey responses.
- Timeliness and completeness of the capitalization of inventory of fixed assets.
- Timeliness of deposits into the State Treasury.
- Statutory and constitutional duties compared to activities.
- Time allocated for performing audits.
- Accuracy of data presented on the “State Daily Spending” website and the authority for publishing such information.
- Petition Audit Revolving Trust Fund expenditures, fees, collections and write-offs.
- Cybersecurity practices and adequacy of controls for safeguarding sensitive data. (This item is addressed in a separate Cybersecurity report.)
- Criteria used to determine staffing decisions for respective audits.
- Length of time between completion of fieldwork and issuance of a report.
- Analysis of fiscal notes prepared for initiative petitions.
- Analysis of the operating efficiencies of maintaining satellite offices.
- Audits with appropriate scopes and have stayed within the scope.

We conducted our performance audit in accordance with the standards applicable to performance audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The performance audit contains recommendations that identify the potential for efficiency and effectiveness improvements. Improvements in these areas can assist the SAO in elevating its performance and contributions to the State of Missouri. While the recommendations contained in the audit report are intended to assess and improve the overall performance of the SAO, we encourage the SAO to continue its own assessment of operations and alternatives to complement the recommendations contained in the performance audit report.

### **Methodology and Scope**

Performance audits are defined as engagements that provide assurance or conclusions based on evaluations of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance/oversight can use the information to improve program performance and operations, reduce costs, and facilitate communication, decision-making, corrective actions and public accountability.

The performance audit work was primarily conducted during March 2018. We conducted the performance audit through a series of data requests, data analyses, and interviews. These steps were performed in conjunction with SAO staff. The information gathered provided the methodology and basis for the audit objectives, work performed, and comments and recommendations contained in the performance audit report.

### **Overall Assessment**

The SAO performs the functions required by State statutes in a professional, efficient and economical manner.

### **Procurement procedures for acquiring goods and services**

We reviewed the SAO's internal procurement policies and procedures to ensure they were in compliance with state statutes, regulations and information found on the Office of Administration, Division of Purchasing website. In addition, we selected a sample of purchases (contract services, fixed assets, general purchases, etc.) and reviewed to determine that goods and services were procured in compliance with the SAO's policies and procedures, applicable state statutes, and guidelines set by the Office of Administration. Specifically, we reviewed for the following:

- Documentation that substantiates bidding and approval of award, where required
- Approved contract
- Approved purchase orders
- Documentation of invoice approval
- Other documentation as necessary

We determined that the SAO procurements were in alignment with office policies and procedures, state statutes and guidelines of the Office of Administration, Division of Purchasing.

*No recommendations are noted for this area.*

**Travel expenditures, employee expense accounts, and oversight of departmental purchasing cards**

We performed a 3-year trend analysis of travel expenditures and employee expense accounts for fiscal years 2015, 2016, and 2017 and obtained explanations for any significant increases or decreases.

<b><u>Fiscal Year</u></b>	<b><u>Total Travel Expenses</u></b>	<b><u>% Change from Prior Year</u></b>
2017	\$274,492	-33%
2016	\$410,177	5%
2015*	\$388,666	-

\*2015 was obtained from the prior audit report.

Travel expenditures decreased by \$135,685 from FY2016 to FY2017, a decrease of approximately 33%. The primary decreases were in the Petition Audit Fund and General Fund:

- Petition Audit Fund (0648) – Approximately \$13K
- General fund (0101) – Approximately \$110K

Overall, from FY2015 to FY2017, travel expenditures decreased by \$114,174, a decrease of approximately 30%. The SAO implemented travel policy changes that contributed to the decrease such as:

- Eliminating out-of-town travel to the jobsites for one week out of the month
- Use of state pool vehicles, rather than personal vehicles, or reduced rates for personal vehicle use

Note: The travel expenditures and employee expense accounts are the same.

***No recommendations are noted for this area.***

We inquired about processes and controls regarding purchasing cards and applicable state statutes, policies and procedures. The SAO provided its *Internal Control Plan June 2017*, which includes a section that outlines purchase/credit card processes. The Office of Administration, Division of Accounting, oversees all Purchasing and Travel Cards. The Office of Administration’s guidelines address the following key items:

- Training
- Card administrators (e.g., who has authority to issue/activate cards, change limits, etc.)
- Requirement of cardholder acknowledgment forms
- Management review of employee charges
- Process to ensure deactivation of cards upon employee terminations/separations

We determined that appropriate processes and controls are in place for the oversight of purchasing cards.

***No recommendations are noted for this area.***

**Accuracy and completeness of the annual Comprehensive Annual Financial Report (CAFR) survey responses**

The Office of Administration, Division of Accounting, requests the SAO to provide financial information to be used in the Comprehensive Annual Financial Report (CAFR) of the State of Missouri. The purpose is to aid the Division of Accounting in verifying information extracted from the state's SAM II accounting system, as well as provide data not on SAM II.

We verified the following information provided by the SAO to the Division of Accounting for the fiscal years 2016 and 2017, to supporting documents and reports:

- a. Accounts Receivables
- b. Operating Indicator Statistics:
  - Audit Reports issued
  - Bonds Registered with the SAO
  - Review of property tax rates
  - Financial reports received

Other financial information requested by the Division of Accounting was not applicable to the SAO (e.g., Revenues, Deferrals, Inventories, etc.).

We gained reasonable assurance that the survey responses for the CAFR were accurate and complete.

***No recommendations are noted for this area.***

**Timeliness and completeness of the capitalization of inventory of fixed assets**

Accounting "completeness" addresses whether all transactions and accounts that should be in the financial statements are included. Accounting "timeliness" refers to the need for accounting information to be presented to the users, in the appropriate accounting period, in time to fulfill their decision-making needs.

To determine the timeliness and completeness of the capitalization of inventory of fixed assets, we performed the following:

- a. Traced ending balances in fixed asset classifications to the trial balance, noting no differences.
- b. Reviewed the Capitalization policy which states purchases of property and equipment with values of \$1,000 or more are capitalized; all other purchases are expensed in year put into service. We reviewed all calendar year fixed asset additions and noted that they appear in-line with the policy.
- c. Reviewed General Ledger activity for repairs and maintenance to ensure no fixed asset additions were incorrectly expensed.
- d. Tested fixed asset additions to ensure existence, completeness and accuracy of fixed assets at year-ends as follows:
  - Vouched the fixed asset purchase to invoice and proof of payment to ensure existence of fixed asset addition.
  - Ensured addition was capitalized in the correct period.

We noted no exceptions during our testing. The capitalization of the assets occurred in the proper period and were complete.

*No recommendations are noted for this area.*

### **Timeliness of deposits into the State Treasury**

The SAO provided its *Internal Control Plan June 2017*, which includes a section that outlines its Receipting Function. Per the *Internal Control Plan*, checks should be deposited the day they are received, or "... soon thereafter". Specific requirements of the State Treasurer were not identified.

To determine timeline of cash receipt deposits to the State Treasury, we reviewed petition fee revenue and bond fee revenue. We selected a sample of these cash deposits during the fiscal years ending June 30, 2016 and June 30, 2017. We calculated the "number of days to deposit" by comparing the check (received) date to the deposit date:

- For bond fees, the "number of days to deposit" ranged from 5 to 9 days, and averaged 6 days.
- For petition fees, a number of transactions were via direct deposit. For those fees received via check, the "number of days to deposit" ranged from 1 to 7 days, and averaged 3 days.

The timing of deposits to the State Treasury was reasonable.

*No recommendations are noted for this area.*

### **Statutory and constitutional duties compared to activities**

A review was made of the statutory and constitutionally required audits. Per a summary prepared by the SAO, there are approximately 55 statutes that address SAO audit requirements. The SAO categorizes those audits as follows:

- Specific Requirements – These audits are performed due to specific statutory requirements with mandated timeframes or specific appropriations.
- Unfunded – These audits are considered unfunded because statutory changes in the last few years have established the audit responsibility but provided no funding or staff.
- Discretionary – These items are considered discretionary for various reasons. For some the law places some responsibility on the SAO, but does not designate a time period. These entities are audited as time allows or on a schedule as determined by our office. For instance, Circuit Courts and Municipal Courts. Some of the audits are performed due to agreements entered into with the entity. Others are performed due to perceived public interest or determination of significance by our office.
- Subject to – These are audits for which the agencies are subject to an audit by the SAO. Since these are subject to vs "shall", the SAO considers these discretionary.

Based on the above, we focused our efforts on reviewing the "Specific Requirements" audits. We verified completed audits to the final audit report on the SAO website.

Per feedback from the SAO, we noted that those audits that were not performed had reasonable explanations, such as:

- The fund no longer exists
- No entities established under the specified statute
- Counties do not have the specified fund
- Programs have not been implemented
- Legislative change eliminated need for the audits
- Audit requirement time period has expired

Many of the audits had an annual audit requirement, while others timing varied (e.g., every 2 years, 4 years, etc.). All required audits were completed within 12 months of the annual period end, except as follows:

<b><u>Entity</u></b>	<b><u>RSMo</u></b>	<b><u>Timing Required</u></b>	<b><u>Status</u></b>
Department of Insurance	374.250.2	Annual audit	The SAO has been auditing on a 3-year cycle, with the last audit being for the years ended June 30, 2015, 2014, and 2013, respectively. The report was issued May 2016 (#2016-026)
Local Sales Tax	32.087.15	Annual audit	The SAO has been auditing on a 3-year cycle, with the last audit being for the years ended June 30, 2014, 2013 and 2012, respectively. The report was issued September 2015 (#2015-080). The SAO noted that the audit for the 3 years ending June 30, 2017 is currently in progress, with fieldwork expected to be completed in April 2018.

In summary, audits with specific statutory requirements with mandated timeframes or specific appropriations have been completed within the timing as required by the state statutes, except for the Department of Insurance and Sales Tax audit.

**Recommendation:**

*We recommend that the SAO perform the statutorily mandated audits within the timeframes required by the state statutes.*

**Management Response:**

*The State Auditor's Office will continue to utilize a risk assessment approach when carrying out its audit duties. Since the prior audit in 2016, we have taken steps to address several of the audit requirements cited in that report. The Office will continue to monitor and effectively use its available resources, and the audits discussed in this section are currently being undertaken, or planned to be performed, with a greater audit period.*

**Time allocated for performing audits**

We reviewed actual project hours to budgeted project hours based on the audit reports issued during fiscal years 2016 and 2017. The following is a summary of the results:

- For the combined fiscal years 2016 and 2017, 105 out of 169 projects (62%) were over budget.
- For those projects over budget, overall average hours over budget was 166 hours.

The following is a summary of the “Average Hours Over Budget” for the FY15, FY16, and FY17:

<b><u>Fiscal Year</u></b>	<b><u>Average Hours Over Budget</u></b>	<b><u>% Change from Prior Year</u></b>
2017	158	-7%
2016	170	45%
2015*	117	-

\*2015 was obtained from the prior audit report.

We requested an explanation for a sample of the jobs that were over budget for the combined fiscal years 2016 and 2017. In summary, the following were key causes for overages:

- Review of complex transactions
- Possible fraud leading to more fieldwork time
- Excessive findings which require more time to vet
- Poor record keeping by auditees
- Staff turnover during audits
- Staff performance issues
- The untimely passing of the former State Auditor impacted staff productivity during the review period.

In summary, excess hours over budget continue to be a challenge for the SAO. Some causes are not within the control of the office (e.g., staff turnover, disorganized auditee records, discovery of fraud, etc.). However, there may be opportunities for enhancements to the audit risk assessment and planning processes.

Regarding the portion of scope, “*time allocated for performing audits compared to industry benchmark*”, we researched potential benchmarking data. Benchmarking information was not available by reputable sources, such as the *Institute of Internal Auditors (IIA) Audit Intelligence Suite (formerly Global Audit Information Network® [GAIN®]) Benchmarking*; the *National Association of State Auditors, Comptrollers and Treasurers (NASACT)*, etc., for government/public sector internal auditing. It is also our professional opinion that reliance on this type of benchmarking data would be questionable as the individual audit scopes can vary greatly.

**Recommendation:**

***The SAO should continue to explore ways to better manage the budgets, such as adjusting audit plan budget hours to reflect more realistic budget expectations based on past experience and taking into consideration factors that could affect the budget during the audit planning and risk assessment process.***

**Management Response:**

***At the beginning of each audit, the State Auditor's Office develops an estimated timeline to completion. As indicated in the comments found in this section, actual hours per audit can exceed the estimated hours to completion due to issues such as discovery of fraud, government mismanagement, inadequate record-keeping, and government entities not being cooperative in the audit process.***

***The Office will continue to monitor the audit process and the estimated and actual hours to completion of each audit.***

**Accuracy of data presented on the “State Daily Spending” website and the authority for publishing such information**

The SAO established the “State of Missouri Daily Spending” on the SAO’s website in March 2017. The site presents daily activity and cash balance for the state’s General Revenue Fund. The online reporting tool is designed to increase transparency in government spending and financial management. This effort was part of Auditor Galloway's “*Budget Integrity Series*”, which was designed to examine the contributing factors to Missouri's budget crisis. The unaudited financial data are listed as they appear in the state accounting system, *SAM II*.

Per consultation with the SAO, there is no direct authority that either permits or prohibits the State Auditor's Office from placing public information on the website. The SAO provided a memo from its legal counsel that outlines its basis for the State Auditor’s authority to publish the information, which includes references to the Missouri Constitution, state’s Attorney General (AG) opinions, and state statutes.

We noted the publicly available website only posts the information of a rolling 30-day cycle. Due to this constraint, we were unable to test or give a conclusion for the period of 7/1/15-6/30/17. To gain an understanding of the performance item, we did examine for the period February 1, 2018 to March 16, 2018, which is outside of our report period, and determined the data is accurately presented on the SAO “State Daily Spending” website.

***No recommendations are noted for this area.***

**Petition Audit Revolving Trust Fund expenditures, fees, collections and write-offs**

Per state statute RSMO Section 29.230, the State Auditor’s office may be called on to audit any political subdivision of the state if enough qualified voters of that political subdivision request the audit. Subsection (4) of this statute states, in part, “The political subdivision shall pay the actual cost of the audit.” We gained an understanding of the process that ensures all audit costs incurred for Petition audits are properly and timely billed.

The SAO bills the entity for the lump sum payment but may enter into payment agreements if they cannot pay in a lump sum. Typically, the SAO tries to ensure payment within 2 years but may extend based on ability to pay. Delinquent accounts are referred to the Attorney General's (AG) Office. At that point, the Attorney General then has the ultimate control regarding how (and whether) the debt is collected.

There were 12 petition audits for fiscal years 2016 and 2017. An analysis was performed to determine whether all audit costs incurred during the performance of the petition audits were billed and collected:

- a. Costs in Excess of Estimates – Total costs incurred exceeded the project estimates by \$75,795.10. Project costs exceeded the estimates for 5 of the 12 (42%) petition audits. Reasons for excess costs are generally the same as those reasons provided for excess project hours, as discussed in the section of this report, “*Time allocated for performing audits*”.
- b. Billings – Of the \$560,795 in costs incurred, \$461,551 (82%) was actually billed to the auditee. Write-offs totaled \$99,243 of the costs incurred. These write-offs were approved by the SAO prior to billings. These are not write-offs that would be approved by the Attorney General during the collections process (discussed below). The state statute RSMO 29.230 does not specifically address allowable reasons for write offs. These write-offs are reviewed and approved by the Director of Audits. The projects with highest write-offs appear to be directly correlated to the projects with highest costs in excess of estimates.

There was a decrease in the percent of costs billed, compared to prior years. Current audit shows 82% of costs incurred were billed. The prior audit noted 96% of costs incurred were billed.

Per the SAO, here are some reasons that write-offs occur:

- Time related to training audit staff
  - Excess time related to researching and studying certain issues, laws, regulations
  - Transition time related to team changes and staff turnover
  - Staff inefficiencies resulting from working on multiple projects
  - Staff performance issues
  - Excess travel costs related to staff from other offices
- c. Receipts and Receivables – Of the \$461,551 billed, \$415,258 (90%) has been received to-date. The remaining \$46,293 applied to two auditees that have ongoing Payment Agreements.

We reviewed the expenditures to verify compliance with statutory authority. Overall, the expenditures appeared allowable (e.g., lodging, mileage, meals, office supplies, postage, etc.) and within the SAO’s statutory authority.

We reviewed outstanding (uncollected) receivables aged over 90 days, to determine if collection efforts were reasonable. As of June 30, 2017, there were 7 auditees with balances over 90 days totaling \$117,141, dating back as far as 2009. The aged receivables file includes notations of collection efforts, for instance entering into MOUs (memo of understanding) for monthly payments and/or escalating to the Attorney General's office for collection. Adequate collection efforts are employed to collect outstanding receivables.

**Recommendation:**

***We recommend the SAO consider evaluating its estimating process to determine appropriate consideration is given to risk factors that can drive up project hours (e.g., consideration of staffing experience, risk assessments to identify projects that may have issues resulting in additional time, etc.)***

**Management Response:**

***The State Auditor's Office will continue to minimize any undercharged overruns. The Office will work to continue ensuring that funds expended and fees generated are consistent and appropriate under the Office's statutory authority.***

**Criteria used to determine staffing decisions for respective audits**

The SAO has designed a team approach for the organization. There are currently three teams, with each team also utilizing Jefferson City based employees:

- South – Springfield satellite office
- East – St. Louis satellite office
- West – Kansas City satellite office

Each team has managers, seniors (also who function as auditor-in-charge or AICs), and staff/interns. The office managers work with the office team to determine appropriate AICs and staff, including IT/Data staff, as necessary. While staff may be based at specific satellite offices, staff may be assigned to any project based on staffing needs, expertise, skillsets, etc.

The SAO maintains a weekly status report tracking all open audits, upcoming audits, and staffing assignments. Information about future planned assignments is in the status report. The Lead Audit Managers on each of the three teams meet weekly to discuss changing staffing needs. The Auditor Directors and Lead Audit Managers also meet regularly to discuss staffing.

A form, "Evaluation of Audit Staffing Needs and Competence", is used on each project to evaluate staffing for jobs. A summary of items addressed in the form are:

- Experience level of staff
- Mix of staff
- Need for specific technical knowledge or expertise for the audit
- Need for staff training for the audit

The criteria used to determine staffing decisions for respective audits, including staffing approach, methods, staffing schedules, staffing tools, and staff skills, was determined to be reasonable.

***No recommendations are noted for this area.***

**Length of time between completion of fieldwork and issuance of a report**

The SAO’s performance goal is to issue reports within 120 calendar days following fieldwork completion. (This includes 30 days for the receipt of management responses from the auditee.) We performed calculations of the days to issue reports based on the audit reports issued during fiscal years 2016 and 2017. The following is a summary of the results:

<b><u>Fiscal Year</u></b>	<b><u>Average Days to Issue Report</u></b>	<b><u>% Change from Prior Year</u></b>
2017	64	-47%
2016	121	2%
2015*	119	-18%

\*2015 was obtained from the prior audit report.

- The Overall average days to issue reports was 97 days for FY2016 and FY2017 combined.
- For the combined fiscal years FY2016 and FY2017, 59 out of 212 audit reports were issued over 120 days (28% of total reports).
  - For FY2016, 50 out of 122 audit reports were issued over 120 days (41% of total reports).
  - For FY2017, 9 out of 90 audit reports were issued over 120 days (10% of total reports).

We requested explanation from the SAO for a sample of jobs that were issued over 120 days. In summary, the following were key causes for the excess days:

- Delays in Audit Managers review of the reports due to heavy workload, other project priorities, office absences, etc. delayed review of the report.
- Difficulty getting the formal exit conferences scheduled with the auditee
- Delays in receiving management responses from the auditee

Per discussion with the SAO, to minimize the impact to auditees regarding delayed audit reports, the SAO does conduct informal exit conferences to ensure preliminary issues are discussed with the auditee at or near completion of the fieldwork. In summary, there was significant improvement from FY2016 to FY2017 based on the decrease in the average days to issue reports (121 to 64 days) and the decrease in the number of reports issued over 120 days (50 to 9).

***No recommendations are noted for this area.***

**Analysis of fiscal notes prepared for initiative petitions**

Missouri's citizens can propose ballot questions through the initiative petition process to change state law. Before a proposed initiative petition may be circulated for signatures, the Secretary of State sends the proposed petition to the SAO. State law requires that the SAO create a fiscal note and a fiscal note summary that states “the measure's estimated cost or savings, if any, to state or local governmental entities.”

In creating the fiscal note, the SAO consults with state and local government entities, and may consult with others with knowledge pertinent to the cost of the proposal. The SAO must receive all statements of fiscal impacts from proponents and opponents within 10 days of the Secretary of State sending the proposed petition to the SAO to be included in the final fiscal note and fiscal note summary.

The SAO prepares the fiscal note and summarizes the fiscal note in the fiscal note summary. Within 20 days of receiving the proposed petition, the SAO sends the fiscal note and fiscal note summary to the Attorney General. Within 10 days, the Attorney General approves the legal content and form of the fiscal note summary. After the certification by the Attorney General, the SAO sends the final fiscal note and fiscal note summary to the Secretary of State. The fiscal notes are posted on the SAO's website.

Per the SAO website, for the period 7/1/15 through 6/30/17, the SAO received approximately 430 initiative petitions.

We selected a sample of fiscal notes from the SAO's website for our review period to determine the following:

- The fiscal notes measured estimated cost or savings, if any, to state or local governmental entities.
- The fiscal notes contained documentation that the SAO consulted with state and local government entities, and others with knowledge pertinent to the cost of the proposal.
- The fiscal note and fiscal note summary were submitted to the Attorney General and Secretary of State within 30 days.

Our review of the fiscal note process and analysis of fiscal notes prepared indicates that the SAO is appropriately performing its statutory duties with regard to the fiscal notes.

*No recommendations are noted for this area.*

#### **Analysis of the operating efficiencies of maintaining satellite offices**

There are currently five offices, including three satellite offices:

- Jefferson City – State Capital building
- Jefferson City – Harry S. Truman building
- Kansas City – Fletcher Daniels (west satellite office)
- St. Louis – Wainwright (east satellite office)
- Springfield – Landers (south satellite office)

Our analysis of the operating efficiencies of maintaining satellite offices involved a combination of analyzing performance statistics of each office (average days to issue audit reports and average hours over budget per audit project) and discussing factors such as:

- Rationale for maintaining the offices
- Staffing approach
- Office costs
- Use of technology

The following is a summary of our analysis of performance statistics. The calculations were performed by grouping audit jobs by Audit Managers based on their assigned office.

Analysis of days to issue reports by office:

<b><u>Office</u></b>	<b><u>Avg. Days – FY16 and FY17</u></b>	<b><u>Avg. Days FY17</u></b>	<b><u>Avg. Days FY16</u></b>	<b><u>Avg. of Four Prior Fiscal Years</u></b>
Jefferson City	51	50	53	115
Kansas City	94	91	114	160
Springfield	96	60	121	197
St. Louis	113	65	143	149

Analysis of average hours over budget by office:

<b><u>Office</u></b>	<b><u>Avg. Hours Over Budget – FY16 and FY17</u></b>	<b><u>Avg. Hours Over Budget – FY17</u></b>	<b><u>Avg. Hours Over Budget – FY16</u></b>	<b><u>Avg. of Four Prior Fiscal Years</u></b>
Jefferson City	287	0	287	103
Kansas City	123	143	112	52
Springfield	123	94	136	80
St. Louis	250	237	257	83

Notes:

- The “Avg. of Four Prior Fiscal Years” was obtained from the prior audit report.
- For FY17, there were no hours over budget attributed to Managers for the Jefferson City office.

The following is a summary of our consideration of other factors with the SAO:

- Rationale for maintaining the offices – According to the SAO, the primary benefits of the satellite offices are the reduction in travel costs (e.g., mileage, fuel, lodging, etc.) and the ability to recruit and retain audit staff.
- Staffing approach – Staff size at each location does not fluctuate significantly and the workload at the satellite locations does not change extensively. Staff will primarily work on audits in their respective areas, but could be assigned to an audit anywhere in the state based on need. A satellite based Audit Manager may have staff on an audit with only satellite office staff, Jefferson City based staff, or a mix of both depending on audit location and the needs of the audit. The same could be true for a Jefferson City based Audit Manager.
- Office costs – The SAO is able to break out costs for each office via the internal expenditure budget. These expenditures are in line with what is spent at the Jefferson City office, given that the office utilizes central purchasing practices. The leased spaces are in state owned buildings.
- Use of technology – Staff are able to access the office network from any location. This includes the in-house electronic working paper system. The SAO has basic current day technologies that allow flexibility in access and communications in a mobile environment.

While data may exist in some form, the office does not formally track or analyze audit projects by region/satellite office, such as projects completed, hours, and timeliness of report issuance.

**Recommendation:**

*We recommend the office establish indicators or criteria to use to measure the operating efficiency of its offices or regional activity. At least annually, the SAO should perform a formal analysis based on the established indicators or criteria. For instance, the SAO can consider identifying projects by region (e.g., incorporate into the project number) to allow for regional analysis (based on overall job costs, travel costs, payroll costs, other). Some other criteria that may be considered are:*

- *Percent of Audits Performed versus Planned*
- *Audits Per Auditor*
- *Non-chargeable hours versus chargeable hours*

**Management Response:**

*Some of the indicators included in the analysis are not related to the efficiency of satellite offices. For example, the location of the audit manager and/or audit staff have no bearing on the average number of days between fieldwork completion and report delivery or the average hours over budget per audit. The audit managers and audit staff domiciled in satellite offices and the Jefferson City office routinely work with audit managers and staff from other offices.*

*We measure the State Auditor's Office's results on an overall basis, not by satellite office or region due to our statewide statutorily mandated responsibilities and the varying location of some audits (petition or requested) that we cannot control. Additionally, the Office implemented a comprehensive performance appraisal system in March 2016 to evaluate all audit staff on each audit, each year, to ensure operating efficiency.*

**Audits with appropriate scopes and have stayed within the scope**

We selected a sample of audit projects and corresponding audit reports as posted to the SAO website for the fiscal years 2016 and 2017. We performed the following procedures:

- Compared the scopes of the audit to the authority to audit (see report section above, “Statutory and constitutional duties compared to activities”).
- Compared the scopes to the audit report results to determine if the audit report results corresponded to the audit scope.

The SAO audits and related findings were within its authority; the scopes appeared appropriate based on the stated authority and standard audit practices.

*No recommendations are noted for this area.*