

REPORT ON THE AUDIT
OF THE
OFFICE OF STATE AUDITOR
FOR THE YEARS ENDED JUNE 30, 2000, 1999 AND 1998

OFFICE OF STATE AUDITOR

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FINANCIAL AUDIT

McBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

Members of the General Assembly
and
Honorable Margaret Kelly, CPA and
Honorable Claire C. McCaskill, Missouri State Auditor
Jefferson City, Missouri

We have audited the accompanying special purpose financial statements of the various funds of the Office of State Auditor as of and for the years ended June 30, 2000, 1999 and 1998, as identified in the table of contents. These special purpose financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these special purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, and changes in cash and investments of the State Auditor-Federal Fund and the Petition Audit Revolving Trust Fund; the receipts of the General Revenue Fund-State; the appropriations and expenditures of various funds of the Office of State Auditor; and general fixed assets and are not intended to be a complete presentation of the financial position and results of operations of the various funds of the Office.

In our opinion, the special purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the State Auditor-Federal Fund, Petition Audit Revolving Fund; the receipts of the General Revenue Fund-State; the appropriations and expenditures of the various funds; and general fixed assets of the Office of State Auditor as of and for the years ended June 30, 2000, 1999 and 1998 in conformity with the comprehensive basis of accounting discussed in Note 1, which are bases of accounting other than generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated April 25, 2001, 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, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

McBride, Lock & Associates
McBride, Lock & Associates

April 25, 2001

OFFICE OF STATE AUDITOR
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES)
 AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 2000

	State Auditor- Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 425,417	\$ 208,295	\$ 633,712
Total receipts	<u>\$ 425,417</u>	<u>\$ 208,295</u>	<u>\$ 633,712</u>
DISBURSEMENTS			
Personal Service	\$ 256,086	\$ 6,500	\$ 262,586
Employee fringe benefits	42,015	519	42,534
Expense and equipment	45,225	12,649	57,874
Total Disbursements	<u>\$ 343,326</u>	<u>\$ 19,668</u>	<u>\$ 362,994</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE OTHER FINANCING SOURCES AND USES	<u>\$ 82,091</u>	<u>\$ 188,627</u>	<u>\$ 270,718</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers			
Out	\$ 0	\$ (3,342)	\$ (3,342)
Transfers to reflect payroll adjustments	0	33,773	33,773
Total Other Financing Sources (Users)	<u>\$ 0</u>	<u>\$ 30,431</u>	<u>\$ 30,431</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER SOURCES AND USES	<u>\$ 82,091</u>	<u>\$ 219,058</u>	<u>\$ 301,149</u>
CASH AND INVESTMENTS, JULY 1	<u>818,041</u>	<u>348,623</u>	<u>1,166,664</u>
CASH AND INVESTMENTS, JUNE 30	<u><u>\$ 900,132</u></u>	<u><u>\$ 567,681</u></u>	<u><u>\$ 1,467,813</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

OFFICE OF STATE AUDITOR
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES),
 AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 1999

	State Auditor- Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 465,315	\$ 103,612	\$ 568,927
Total receipts	<u>\$ 465,315</u>	<u>\$ 103,612</u>	<u>\$ 568,927</u>
DISBURSEMENTS			
Personal Service	\$ 330,762	\$ 44,248	\$ 375,010
Employee fringe benefits	96,163	32,954	129,117
Expense and equipment	85,826	25,790	111,616
Total Disbursements	<u>\$ 512,751</u>	<u>\$ 102,992</u>	<u>\$ 615,743</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE OTHER FINANCING SOURCES AND USE	<u>\$ (47,436)</u>	<u>\$ 620</u>	<u>\$ (46,816)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers			
Out	<u>0</u>	<u>(5,128)</u>	<u>(5,128)</u>
Total Other Financing Sources (Users)	<u>\$ 0</u>	<u>\$ (5,128)</u>	<u>\$ (5,128)</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER SOURCES AND USES	<u>\$ (47,436)</u>	<u>\$ (4,508)</u>	<u>\$ (51,944)</u>
CASH AND INVESTMENTS, JULY 1	<u>865,477</u>	<u>353,131</u>	<u>1,218,608</u>
CASH AND INVESTMENTS, JUNE 30	<u><u>\$ 818,041</u></u>	<u><u>\$ 348,623</u></u>	<u><u>\$ 1,166,664</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

OFFICE OF STATE AUDITOR
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 1998

	State Auditor- Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 446,644	\$ 168,398	\$ 615,042
Total receipts	\$ 446,644	\$ 168,398	\$ 615,042
DISBURSEMENTS			
Personal Service	\$ 401,523	\$ 226,212	\$ 627,735
Employee fringe benefits	97,023	46,589	143,612
Expense and equipment	3,824	19,730	23,554
Total Disbursements	\$ 502,370	\$ 292,531	\$ 794,901
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE OTHER FINANCING SOURCES AND USES	\$ (55,726)	\$ (124,133)	\$ (179,859)
OTHER FINANCING SOURCES (USES)			
Operating transfers Out	\$ 0	\$ (7,193)	\$ (7,193)
Total Other Financing Sources (Users)	\$ 0	\$ (7,193)	\$ (7,193)
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER SOURCES AND USES	\$ (55,726)	\$ (131,326)	\$ (187,052)
CASH AND INVESTMENTS, JULY 1	921,203	484,457	1,405,660
CASH AND INVESTMENTS, JUNE 30	\$ 865,477	\$ 353,131	\$ 1,218,608

The accompanying Notes to the Financial Statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR
COMPARATIVE STATEMENT OF RECEIPTS
GENERAL REVENUE FUND - STATE

	Year Ended June 30,		
	2000	1999	1998
Bond registration fees	\$ 534,505	\$ 783,157	\$ 562,791
Audit fees	2,092	7,159	3,628
Miscellaneous	947	637	2,674
Total	<u>\$ 537,544</u>	<u>\$ 790,953</u>	<u>\$ 569,093</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

OFFICE OF STATE AUDITOR
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,								
	2000			1999			1998		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE									
Personnel service	\$ 4,869,839	\$ 4,869,839	\$ 0	\$ 4,502,729	\$ 4,502,255	\$ 474	\$ 4,282,414	\$ 4,282,414	\$ 0
Expense and equipment	1,119,300	1,115,358	3,942	726,579	726,579	0	726,579	726,574	5
Pilot audit procurement	100,000	92,210	7,790	0	0	0	0	0	0
Cost/benefit analysis -personal service	16,000	0	16,000	0	0	0	0	0	0
Cost/benefit analysis -expense and equipment	11,630	11,486	144	0	0	0	0	0	0
Payment of real property leases, related services utilities and systems furniture; structural modifications for new FTE - expense and equipment	70,356	28,723	41,633	3,876	3,876	0	3,876	3,876	0
Total General Revenue Fund - State	\$ 6,187,125	\$ 6,117,616	\$ 69,509	\$ 5,233,184	\$ 5,232,710	\$ 474	\$ 5,012,869	\$ 5,012,864	\$ 5
STATE AUDITOR - FEDERAL FUND									
Personal service	\$ 443,373	\$ 344,227	\$ 99,146	\$ 422,260	\$ 330,762	\$ 91,498	\$ 401,523	\$ 401,523	\$ 0
Expense and equipment	44,967	44,671	296	44,967	44,947	20	44,967	44,967	0
Total State Auditor - Federal Fund	\$ 488,340	\$ 388,898	\$ 99,442	\$ 467,227	\$ 375,709	\$ 91,518	\$ 446,490	\$ 446,490	\$ 0
GAMING COMMISSION FUND									
Personal service	\$ 56,651	\$ 33,216	\$ 23,435	\$ 53,953	\$ 14,839	\$ 39,114	\$ 51,327	\$ 10,624	\$ 40,703
Expense and equipment	22,580	7,699	14,881	22,580	22,580	0	22,580	11,754	10,826
Total Gaming Commission Fund	\$ 79,231	\$ 40,915	\$ 38,316	\$ 76,533	\$ 37,419	\$ 39,114	\$ 73,907	\$ 22,378	\$ 51,529
CONSERVATION COMMISSION FUND									
Personal service	\$ 35,796	\$ 35,796	\$ 0	\$ 34,091	\$ 34,091	\$ 0	\$ 32,411	\$ 32,411	\$ 0
Expense and equipment	2,611	2,611	0	2,611	2,611	0	2,611	2,611	0
Total Conservation Commission Fund	\$ 38,407	\$ 38,407	\$ 0	\$ 36,702	\$ 36,702	\$ 0	\$ 35,022	\$ 35,022	\$ 0
PARKS SALES TAX FUND									
Personal service	\$ 17,877	\$ 17,877	\$ 0	\$ 17,026	\$ 17,026	\$ 0	\$ 16,187	\$ 16,187	\$ 0
Total Parks Sales Tax Fund	\$ 17,877	\$ 17,877	\$ 0	\$ 17,026	\$ 17,026	\$ 0	\$ 16,187	\$ 16,187	\$ 0

OFFICE OF STATE AUDITOR
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,								
	2000			1999			1998		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
SOIL AND WATER SALES TAX FUND									
Personal service	\$ 17,200	\$ 17,200	\$ 0	\$ 16,381	\$ 16,381	\$ 0	\$ 15,572	\$ 15,572	\$ 0
Total Soil and Water Sales Tax Fund	\$ 17,200	\$ 17,200	\$ 0	\$ 16,381	\$ 16,381	\$ 0	\$ 15,572	\$ 15,572	\$ 0
STATE HIGHWAY DEPARTMENT FUND									
Personal service	\$ 604,181	\$ 604,181	\$ 0	\$ 575,411	\$ 575,411	\$ 0	\$ 547,153	\$ 547,153	\$ 0
Expense and equipment	24,678	24,678	0	24,678	24,678	0	24,678	24,678	0
Total State Highway Department Fund	\$ 628,859	\$ 628,859	\$ 0	\$ 600,089	\$ 600,089	\$ 0	\$ 571,831	\$ 571,831	\$ 0
PETITION AUDIT REVOLVING TRUST FUND									
Personal service	\$ 537,584	\$ 6,500	\$ 531,084	\$ 511,984	\$ 10,475	\$ 501,509	\$ 486,382	\$ 226,212	\$ 260,170
Expense and equipment	52,616	0	52,616	52,616	12,649	39,967	52,616	27,336	25,280
Total Petition Audit Revolving Trust Fund	\$ 590,200	\$ 6,500	\$ 583,700	\$ 564,600	\$ 23,124	\$ 541,476	\$ 538,998	\$ 253,548	\$ 285,450
Total All Funds	\$ 8,047,239	\$ 7,256,272	\$ 790,967	\$ 7,011,742	\$ 6,339,160	\$ 672,582	\$ 6,710,876	\$ 6,373,892	\$ 336,984

The accompanying Notes to the Financial Statements are an integral part of this statement

OFFICE OF THE STATE AUDITOR
COMPARATIVE STATEMENT OF GENERAL FIXED ASSETS
AS OF JUNE 30,

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Office Equipment	\$ 169,516	\$ 160,503	\$ 155,575
Office Furniture	144,172	127,207	116,070
Computers and Accessories	846,671	833,553	773,098
Motor Vehicles	<u>48,331</u>	<u>44,055</u>	<u>44,055</u>
Total General Fixed Assets	<u>\$ 1,208,690</u>	<u>\$ 1,165,318</u>	<u>\$ 1,088,798</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

OFFICE OF STATE AUDITOR
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special purpose financial statements present only selected data for each fund of the Office of Auditor.

Receipts, disbursements, other financing sources (uses), and changes in cash and investments are presented in Exhibit A 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 is presented as 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 equities 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 presented for each appropriation 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.

B. Basis of Accounting

The Statements of Receipts, Disbursements, Other Financing Resources (Uses), and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, present amounts when they are received or disbursed.

The Statement of Receipts, Exhibit B, also prepared on the cash basis of accounting, presents amounts when received.

The Statement of Appropriations and Expenditures, Exhibit C, is presented on the state’s legal budgetary basis of accounting which recognizes expenditures on the encumbrance method. Expenditures include amounts payable or encumbered at June 30 and paid during the lapse period, which ends August 31 for regular appropriations and December 31 for capital improvement appropriations. The

authority to expend appropriations ends with the close of the lapse period. However, the General Assembly may authorize reappropriation of the unexpended balances of capital improvement appropriations for the following year. The General Assembly also may authorize biennial capital improvement appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated or expenditure during the second year.

The cash basis of accounting and the budgetary basis of accounting differ from generally accepted accounting principles, which 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.

C. 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 billings 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.

Petition Audit Revolving Trust Fund: This fund receives reimbursements from political subdivisions for the office's petition audits. Receipts are recognized at the time billings 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 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.

Gaming Commission Fund: Appropriations from this fund authorize disbursements for audit services related to the Missouri Gaming Commission.

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.

State Highway Department Fund: Appropriations from this fund authorize disbursements for audit services related to the Highway and Transportation Commission and the Department of Transportation.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the State's health care, optional life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. Also, the deferred compensation plan involves employee payroll deferral and a monthly state matching contribution for each participating employee.

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 plan match.

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 salaries are not appropriated by agency and thus are not presented in the financial statement at Exhibit C.

2. Cash

The 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.

3. Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit C as follows:

State Auditor – Federal Fund			
Year Ended June 30,			
	2000	1999	1998
Disbursements Per Exhibit A	\$343,326	\$512,751	\$502,370
Employee fringe benefits	(42,015)	(96,163)	(97,023)
Lapse period expenditures:			
2000	88,142	0	0
1999	(555)	0	0
1998	0	554	40,326
1997	0	(40,326)	(290)
Accounts payable at June 30, 1998	0	(1,107)	1,107
Expenditures Per Exhibit C	<u>\$388,898</u>	<u>\$375,709</u>	<u>\$446,490</u>

Petition Audit Revolving Trust Fund			
Year Ended June 30,			
	2000	1999	1998
Disbursements Per Exhibit A	\$ 19,668	\$102,992	\$292,531
Employee fringe benefits	(519)	(32,954)	(46,589)
Lapse period expenditures:			
2000	0	0	0
1999	21,124	(21,124)	0
1998	0	(25,790)	25,790
1997	0	0	(18,184)
Transfers to reflect payroll adjustments	(33,773)	0	0
Expenditures Per Exhibit C	<u>\$ 6,500</u>	<u>\$23,124</u>	<u>\$253,548</u>

4. General Fixed Assets

General fixed assets, which are recorded as expenditures when acquired, are capitalized at costs in the General Fixed Assets Account Group and are not depreciated.

5. Accounts Receivable

At June 30, accounts receivable existed representing amounts due from other state agencies and from political subdivisions for audit and other services provided and billed, but not paid. At June 30, 2000, these accounts receivable totaled \$25,512 for the State Auditor – Federal Fund, \$167,700 for the Petition Audit Revolving Trust Fund, and \$2,904 for the General Revenue Fund – State, and these amounts are not reflected in the financial statements. The collectibility of these amounts cannot be determined.

6. Audit of Prior Periods

The most recent previous audit that has been conducted on the books and records of the Office of State Auditor was conducted for year ended June 30, 1991. RSMo 21.760 states that "during the legislative session which convenes in an odd-numbered year, the general assembly by concurrent resolution, employ an independent certified public accountant or certified public accounting firm to perform an audit examination of the accounts, functions, programs and management of the State Auditor Office." Independent assurances pertaining to the beginning cash and investment balances as of July 1, 1997 have therefore not been provided from the prior audit.

MCBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Members of the General Assembly
and
Honorable Margaret Kelly, CPA and
Honorable Claire C. McCaskill, Missouri State Auditor
Jefferson City, Missouri

We have audited the special purpose financial statements of the Office of State Auditor as of and for the years ended June 30, 2000, 1999 and 1998, and have issued our report thereon dated April 25, 2001. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the special purpose financial statements of the Office of State Auditor are free of material misstatement, we performed tests of the Office's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the special purpose financial statements of the Office of State Auditor, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the special purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Governor, the Missouri General Assembly, management of the Office of State Auditor and other applicable government officials and is not intended and should not be used by anyone other than these specified parties.

McBride, Lock & Associates

McBride, Lock & Associates

April 25, 2001

PERFORMANCE AUDIT

Members of the General Assembly
And
Honorable Margaret Kelly, CPA and
Honorable Claire C. McCaskill
Jefferson City, Missouri

We have performed an examination of the Office of the State Auditor for the years ended June 30, 2000, 1999 and 1998 in accordance with Section 21.760 – Audit of the state auditor's office. In the previous section we have issued our audit of the financial statements, internal control and compliance. The purpose of this report is to report on the performance of the State Auditor's Office.

General Assessment

The Office of State Auditor performs the functions required by State statutes in a professional, efficient and economical manner. The efforts of the State Auditor provide significant benefits to State government and the citizens of Missouri.

Delivery of Audit Reports

The audit report provides the official communication to the auditee and to other users of the audit. An analysis was performed regarding the timeliness of delivery of the audit reports to the auditee and the general public. The average number of days from fieldwork completion to the report delivery was 134 days in calendar year 2000. Our sample determined that reports were issued in as few as 25 days but we also noted reports which took over 260 days to deliver. For the audits sampled we did not generally detect any legal or other technical causes for the delay. In our opinion the days to delivery exceeds the time necessary for this part of the audit process.

During our analysis we noted that the manager level is responsible for the significant majority of the time and effort in the report processing phase. This review process is effective in providing a sound quality control process. However the review process effort oftentimes is not adequately managed or prioritized to ensure that audit reports are processed in a timely manner.

Although the auditor's office has noted this as a concern and developed significant analysis of the problem, an effective plan to correct the issue has not been established. Currently, the state auditor has established a target of 100 days from fieldwork completion to issue an audit report. We believe that such target is quite generous to the audit team. The

analysis of the actual hours expended by the manager level to review and process audit reports disclosed that a significant number of days could be saved if the manager level provided an analysis of the various audit efforts and other responsibilities needed and performed accordingly. Such analysis would disclose the opportunity to call upon other resources at various levels within the office when workloads fluctuate. We did not note that such analyses were performed in a manner to expedite report issuance.

While we do not wish to limit the necessary time to issue a quality report, the improvement in the management of time in the review process would seem to significantly improve the capability to issue these audit reports to the auditee and to the public on a more timely basis.

We recommend that the auditor develop a corrective action plan which provides for significant milestone dates so as to encourage and monitor report processing towards delivery. We believe it reasonable, based upon our understanding, that a significant majority of reports should be available to the directors within 21 days from the completion of field efforts although this timing could be reanalyzed in future periods to consider the size and complexities of the specific audits. Reports that cannot be provided to the director within that timeframe should be analyzed by the managers to provide for an adequate explanation as to the cause and the establishment of an action plan for submission of the report to the director.

State Auditor's Response:

We concur that prompt delivery of audit reports is important. Effective June 1, 2001: 1) the Audit Manager will be providing each audit report to the Deputy State Auditor within 30 days of receipt by the Audit Manager of the draft audit report from the Senior Auditor who supervised the audit fieldwork, or 2) the Audit Manager will be providing a written explanation to the Deputy State Auditor why the audit report is not ready within that 30 day period.

Audit Conclusion:

The response adequately addresses the concerns expressed within the finding. We continue to recommend that the timeframes be reanalyzed on a regular basis to ensure quality reporting on all efforts. Additionally, we wish to re-emphasize the need for establishment of an action plan on those reports not meeting the targeted timeframes.

Review of Department of Transportation

The State Auditor's Office is required by statute to perform a biennial audit of the Department of Transportation. The most recent financial-compliance audit performed by the State Auditor's Office of the Department of Transportation was performed for the fiscal year ended June 30, 1998. Since that time the Department has been audited by an independent certified public accountant firm. Payment for those services has not been made from appropriations to the State Auditor.

The level of appropriation to the State Auditor from State Highway funds for fiscal year 1998, 1999, and 2000 has remained relatively consistent as has the level of effort provided by this office. Efforts provided by the State Auditor are now of a performance nature rather than the previously provided financial-compliance audits.

Because of the efforts of the independent CPA in providing audit services to the Department of Transportation it would appear that audit resources within the State Auditor's Office could be made available for other audit tasks which may have higher risk factors. Such locations may include the University system which has been mostly reliant on the independent CPA audit for over 20 years.

We recommend that the State Auditor perform an evaluation of risk factors in selecting audits to be performed. Included in this consideration should be the extent of audit services performed in recent periods, the overall funds expended by the auditee, and the results of other audit efforts both internal or external.

State Auditor's Response:

We believe allocating resources for audits of the Department of Transportation is appropriate and necessary considering the importance of transportation to the citizens of Missouri and the problems which the Department of Transportation has experienced in recent years. We are careful not to duplicate work performed by the private CPA firm hired by the Department of Transportation. We intend to continue to allocate significant resources to audits at the Department of Transportation.

With regard to the comment that more resources should be allocated to audits of the University System, each year we allocate audit resources for audits in the state's university system. For example, we just completed and released an audit of Missouri Southern State College and in 2000 did an audit of Separation And Retention Contracts Entered Into By Public Institutions Of Higher Education. Audits relating to higher education institutions are included in our audit plan for this year.

Audit Conclusion:

The audit response is appropriate assuming that all risk factors are considered in the decision to render the level of effort at the various locations. Additionally, the State Auditor should provide build-upon efforts on the independent CPA efforts when appropriate to further improve efficiencies in this area.

Audits of Circuit Courts and All Divisions

The State Auditor has conducted several audits of the circuit courts and their divisions such as municipal courts during this audit period. These audits have been selected based upon certain needs or risk factors. Of the total of over 400 circuit courts and divisions in the State only 55 received audit coverage during 1998, 1999 or 2000. The State Auditor, per Attorney General opinion 7-83, "must audit the accounts of the circuit courts and all divisions of the

circuit courts pursuant to Article IV, Section 13, Missouri Constitution and Section 29.200, RSMo 1978.

Currently the provisions of this opinion are not being met.

We recommend that the State Auditor establish a plan to meet the opinion rendered by the Attorney General in providing audits of the circuit court and all divisions.

State Auditor's Response:

With the resources available, it is not feasible to audit all divisions of all circuit courts. We select some courts for audits each year.

Audit Conclusion:

No additional comment necessary.

Petition Audits

Our review of the petition audit efforts noted two areas of concern:

- A) The audit fees and disbursements charged to the appropriation were not consistent for the three periods under review. The following chart provides description of this concern:

	Fiscal Year		
	2000	1999	1998
Audit Fees	\$208,295	\$103,612	\$168,398
Disbursements	6,500	23,124	253,548

Although fees billed can be made in a period subsequent to the period for which audit efforts may have been conducted, there does not appear to be a proper correlation of costs with the appropriation.

Per the fund analysis provided by the Department of Administration "The petition audit revolving trust is established to account for monies received by the State for the performance of the petition audits. The fund will be used solely to pay for the costs of these audits."

The results from fiscal years 1999 and 2000 would indicate that other funds were used to support petition audit efforts. Although this would not necessarily be in violation of the defined use of the fund, it would allow for the fund balance to be expanded. This could ultimately allow for the use of these funds for purposes other than petition audits.

The results from fiscal year 1998 may provide indication of funds being used for other than petition audit purposes. However, it cannot be determined, since the prior period was not audited, whether there is an actual violation. An analysis of the fund balance does not provide an overall indication that this appropriation was violated.

- B) Collection of petition audit fees has been slow. As of June 30, 2000 the balance of accounts receivable was \$167,700. Total billings for fiscal year 2000 was \$214,933. The total outstanding balance at June 30, 2000 was made up of:

Billings prior to FY 2000 (July 1, 1999)	\$78,207
Other billings over 30 days old	66,050
Billings less than 30 days	23,443

The Auditor's Office currently takes in-house efforts to submit second notices along with filing DUNS notices. When the in-house efforts do not prove successful, the State Auditor refers the cases to the Attorney General for collection action. However, as is evident from the delays in collection, the current efforts have not been adequate to obtain timely collection of petition audit fees.

We recommend:

- A) that expenditures charged to the petition audit revolving fund are generally matched to fees generated.
- B) that the State Auditor develop a plan to analyze all receivables to determine collectibility and collection efforts. Additionally, we recommend that collection efforts be initiated earlier and include reviews of state agencies remitting funds to the audited entity to ensure that reductions to the payouts from, for instance, sales tax collections, are being used for petition audit collections. Finally, we recommend that legislative action be considered to ensure that petition audits that are being provided have adequate assurances of fee collection.

State Auditor's Response:

Receipts into the petition fund vary greatly from year to year and do not necessarily reflect the resources allocated to petition audits in a given year. For fiscal year 2001, we anticipate paying approximately \$150,000 from the petition fund to cover expenses associated with petition audits.

Regarding efforts to collect delinquent petition audit bills, to the extent authorized by statute, we seek to collect petition audit bills by offsetting such bills against state funds owed to the local government. Where such offset is not possible, delinquent petition audit bills are, as a

last resort, referred to the Attorney General for collection. We will more closely monitor the collection efforts by the Attorney General.

Audit Conclusion:

The audit response appropriately addresses the concerns expressed in the finding.