

REPORT ON THE AUDIT
OF THE
OFFICE OF STATE AUDITOR
FOR THE YEARS ENDED JUNE 30, 2003, 2002 AND 2001

OFFICE OF STATE AUDITOR

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FINANCIAL AUDIT

MCBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

Members of the General Assembly
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, 2003, 2002 and 2001, 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, 2003, 2002 and 2001 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 June 18, 2004, 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

June 18, 2004

OFFICE OF STATE AUDITOR
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES
 (USES), AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 2003

	State Auditor- Federal Fund	Petition Audit Revolving Trust fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 324,072	\$ 243,569	\$ 567,641
Total Receipts	\$ 324,072	\$ 243,569	\$ 567,641
DISBURSEMENTS			
Personal service	\$ 311,261	\$ 306,208	\$ 617,469
Employee fringe benefits	88,047	95,106	183,153
Expense and Equipment	29,954	35,532	65,486
Total Disbursements	\$ 429,262	\$ 436,846	\$ 866,108
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE OTHER FINANCING SOURCES AND USES	\$ (105,190)	\$ (193,277)	\$ (298,467)
OTHER FINANCING SOURCES (USES)			
Operating transfers	\$ 0	\$ 0	\$ 0
Out	0	0	0
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER USES	\$ (105,190)	\$ (193,277)	\$ (298,467)
CASH AND INVESTMENTS, JULY 1, 2002	620,829	427,702	1,048,531
CASH AND INVESTMENTS, JUNE 30, 2003	\$ 515,639	\$ 234,425	\$ 750,064

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, 2002

	State Auditor- Federal Fund	Petition Audit Revolving Trust fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 362,113	\$ 314,986	\$ 677,099
Total Receipts	\$ 362,113	\$ 314,986	\$ 677,099
DISBURSEMENTS			
Personal service	\$ 232,787	\$ 362,435	\$ 595,222
Employee fringe benefits	71,853	103,341	175,194
Expense and Equipment	30,000	30,386	60,386
Total Disbursements	\$ 334,640	\$ 496,162	\$ 830,802
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE OTHER FINANCING SOURCES AND USES	\$ 27,473	\$ (181,176)	\$ (153,703)
OTHER FINANCING SOURCES (USES)			
Operating transfers Out	\$ 0	\$ 0	\$ 0
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER USES	\$ 27,473	\$ (181,176)	\$ (153,703)
CASH AND INVESTMENTS, JULY 1, 2001	593,356	608,878	1,202,234
CASH AND INVESTMENTS, JUNE 30, 2002	\$ 620,829	\$ 427,702	\$ 1,048,531

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, 2001

	State Auditor- Federal Fund	Petition Audit Revolving Trust fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 389,624	\$ 219,596	\$ 609,220
 Total Receipts	 \$ 389,624	 \$ 219,596	 \$ 609,220
DISBURSEMENTS			
Personal service	\$ 501,023	\$ 99,996	\$ 601,019
Employee fringe benefits	165,019	28,403	193,422
Expense and Equipment	30,358	50,000	80,358
 Total Disbursements	 \$ 696,400	 \$ 178,399	 \$ 874,799
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE OTHER FINANCING SOURCES AND USES	\$ (306,776)	\$ 41,197	\$ (265,579)
OTHER FINANCING SOURCES (USES)			
Operating transfers			
Out	\$ 0	\$ 0	\$ 0
 Total Other Financing Sources (Uses)	 \$ 0	 \$ 0	 \$ 0
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER USES	\$ (306,776)	\$ 41,197	\$ (265,579)
 CASH AND INVESTMENTS, JULY 1, 2000	 900,132	 567,681	 1,467,813
 CASH AND INVESTMENTS, JUNE 30, 2001	 \$ 593,356	 \$ 608,878	 \$ 1,202,234

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,		
	2003	2002	2001
Bond registration	\$ 991,184	\$ 746,288	\$ 642,181
Audit fees	0	0	4,430
Miscellaneous	4,692	2,337	1,847
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 995,876</u>	<u>\$ 748,625</u>	<u>\$ 648,458</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,								
	2003			2002			2001		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE									
Personal service	\$ 4,751,527	\$ 4,751,527	\$ 0	\$ 4,715,833	\$ 4,574,336	\$ 141,497	\$ 5,512,583	\$ 5,498,294	\$ 14,289
Expense and equipment	1,443,660	1,178,605	265,055	1,005,242	806,272	198,970	1,301,750	1,003,138	298,612
Audit Procurement Prgm-0101	0	0	0	501,620	467,122	34,498	201,620	187,650	13,970
Personal service and/or Expenses and Equipment	688,354	688,353	1	1,035,768	1,004,611	31,157	0	0	0
Payment of real property leases, related services, utilities and systems furniture; structural modifications for new FTE - expense and equipment	68,200	61,550	6,650	123,272	55,072	68,200	61,636	55,090	6,546
Total General Revenue Fund - State	\$ 6,951,741	\$ 6,680,035	\$ 271,706	\$ 7,381,735	\$ 6,907,413	\$ 474,322	\$ 7,077,589	\$ 6,744,172	\$ 333,417
STATE AUDITOR - FEDERAL FUND									
Personal service	\$ 463,460	\$ 311,261	\$ 152,199	\$ 463,460	\$ 232,787	\$ 230,673	\$ 461,150	\$ 412,881	\$ 48,269
Expense and equipment	44,967	29,954	15,013	44,967	30,000	14,967	44,967	30,358	14,609
Total State Auditor - Federal Fund	\$ 508,427	\$ 341,215	\$ 167,212	\$ 508,427	\$ 262,787	\$ 245,640	\$ 506,117	\$ 443,239	\$ 62,878
GAMING COMMISSION FUND									
Personal service	\$ 58,804	\$ 32,315	\$ 26,489	\$ 58,804	\$ 31,890	\$ 26,914	\$ 58,594	\$ 15,565	\$ 43,029
Expense and equipment	22,580	4,316	18,264	22,580	788	21,792	22,580	2,657	19,923
Total Gaming Commission Fund	\$ 81,384	\$ 36,631	\$ 44,753	\$ 81,384	\$ 32,678	\$ 48,706	\$ 81,174	\$ 18,222	\$ 62,952
CONSERVATION COMMISSION FUND									
Personal service	\$ 37,532	\$ 37,532	\$ 0	\$ 37,532	\$ 36,408	\$ 1,124	\$ 37,322	\$ 37,309	\$ 13
Expense and equipment	2,611	1,739	872	2,611	2,052	559	2,611	2,611	0
Total Conservation Commission Fund	\$ 40,143	\$ 39,271	\$ 872	\$ 40,143	\$ 38,460	\$ 1,683	\$ 39,933	\$ 39,920	\$ 13
PARKS SALES TAX FUND									
Personal service	\$ 18,745	\$ 18,745	\$ 0	\$ 18,745	\$ 18,187	\$ 558	\$ 18,640	\$ 18,639	\$ 1
Total Parks Sales Tax Fund	\$ 18,745	\$ 18,745	\$ 0	\$ 18,745	\$ 18,187	\$ 558	\$ 18,640	\$ 18,639	\$ 1
SOIL AND WATER SALES TAX FUND									
Personal service	\$ 18,054	\$ 18,054	\$ 0	\$ 18,054	\$ 17,512	\$ 542	\$ 17,949	\$ 17,949	\$ 0
Total Soil and Water Sales Tax Fund	\$ 18,054	\$ 18,054	\$ 0	\$ 18,054	\$ 17,512	\$ 542	\$ 17,949	\$ 17,949	\$ 0

OFFICE OF STATE AUDITOR
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,								
	2003			2002			2001		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
STATE HIGHWAY DEPARTMENT FUND									
Personal service	\$ 566,402	\$ 549,409	\$ 16,993	\$ 631,564	\$ 568,359	\$ 63,205	\$ 628,414	\$ 565,561	\$ 62,853
Expense and equipment	22,210	14,801	7,409	24,678	15,753	8,925	24,678	22,208	2,470
Total State Highway Department Fund	\$ 588,612	\$ 564,210	\$ 24,402	\$ 656,242	\$ 584,112	\$ 72,130	\$ 653,092	\$ 587,769	\$ 65,323
PETITION AUDIT REVOLVING TRUST FUND									
Personal service	\$ 564,656	\$ 306,208	\$ 258,448	\$ 479,958	\$ 362,435	\$ 117,523	\$ 561,296	\$ 99,996	\$ 461,300
Expense and equipment	52,616	35,532	17,084	44,724	30,386	14,338	52,616	50,000	2,616
Personal service and/or Expenses and Equipment	0	0	0	92,590	0	92,590	0	0	0
Total Petition Audit Revolving Trust Fund	\$ 617,272	\$ 341,740	\$ 275,532	\$ 617,272	\$ 392,821	\$ 224,451	\$ 613,912	\$ 149,996	\$ 463,916
Total All Funds	\$ 8,824,378	\$ 8,039,901	\$ 784,477	\$ 9,322,002	\$ 8,253,970	\$ 1,068,032	\$ 9,008,406	\$ 8,019,906	\$ 988,500

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

OFFICE OF STATE AUDITOR
STATEMENT OF CHANGES IN GENERAL CAPITAL ASSETS

	<u>Office Equipment</u>	<u>Motor Vehicles</u>	<u>Total</u>
BALANCE, July 1, 2000	\$ 1,160,360	\$ 48,331	\$ 1,208,691
Adjustments (Note 4)	(231,945)	0	(231,945)
Additions	341,291	23,348	364,639
Dispositions	<u>(81,867)</u>	<u>(15,433)</u>	<u>(97,300)</u>
BALANCE, June 30, 2001	\$ 1,187,839	\$ 56,246	\$ 1,244,085
Additions	117,656	21,951	139,607
Dispositions	<u>(203,897)</u>	<u>0</u>	<u>(203,897)</u>
BALANCE, June 30, 2002	\$ 1,101,598	\$ 78,197	\$ 1,179,795
Additions	223,769	0	223,769
Dispositions	<u>(164,907)</u>	<u>0</u>	<u>(164,907)</u>
BALANCE, June 30, 2003	<u><u>\$ 1,160,460</u></u>	<u><u>\$ 78,197</u></u>	<u><u>\$ 1,238,657</u></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 financial statements present only selected data for each fund of the Office of State 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 equity 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 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 Comparative Statement of Receipts, Exhibit B, also prepared on the cash basis of accounting, presents amounts when received.

The Comparative Statement of Appropriations and Expenditures, Exhibit C, is presented on the state's legal budgetary basis of accounting. For years ended on or after June 30, 2001, 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.

However, 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 reappropriated for expenditure during the second year. Therefore, such appropriations have no lapsed balances at the end of the first year.

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.

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 offices' 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 offices' 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 the General Revenue Fund-State. Voters of other political subdivisions such as municipalities or school districts may petition the offices 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, cafeteria, and deferred compensation and deferred compensation incentive plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. The deferred compensation plan involves employee payroll deferrals and the deferred compensation incentive plan a state contribution for each employee who participates in the deferred compensation plan and has been employed by the state for at least 1 year.

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 salaries are not appropriated by agency and thus are not presented in the financial statements 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,			
	2003	2002	2001
DISBURSEMENTS PER EXHIBIT A	\$ 429,262	\$ 334,640	\$ 696,400
Employee fringe benefits	(88,047)	(71,853)	(165,019)
Lapse period expenditures:			
2000	0	0	(88,142)
EXPENDITURES PER EXHIBIT C	<u>\$ 341,215</u>	<u>\$ 262,787</u>	<u>\$ 443,239</u>

Petition Audit Revolving Trust Fund			
Year Ended June 30,			
	2003	2002	2001
DISBURSEMENTS PER EXHIBIT A	\$ 436,846	\$ 496,162	\$ 178,399
Employee fringe benefits	(95,106)	(103,341)	(28,403)
EXPENDITURES PER EXHIBIT C	<u>\$ 341,740</u>	<u>\$ 392,821</u>	<u>\$ 149,996</u>

4. General Capital Assets

General capital assets are recorded at cost in the General Capital Assets Account. Due to a regulation change increasing the capital asset amount from \$250 to \$1,000, items costing less than \$1,000 were adjusted out, as well as software that was previously included in fixed assets.

5. Accounts Receivable

At June 30, an accounts receivable balance 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, 2003, these accounts receivable totaled \$23,748 for the State Auditor – Federal Fund and \$130,949 for the Petition Audit Revolving Trust Fund, and these amounts are not reflected in the financial statements. The collectibility of these amounts cannot be determined.

MCBRIDE, LOCK & ASSOCIATES

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

Members of the General Assembly

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, 2003, 2002 and 2001, and have issued our report thereon dated June 18, 2004. 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

June 18, 2004

PERFORMANCE AUDIT

MCBRIDE, LOCK & ASSOCIATES

Members of the General Assembly

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, 2003, 2002 and 2001 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 (SAO) 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.

Our analysis has, per specific request, included the following performance areas in addition to our overall analysis:

- Time allocated for performing audit and a comparison of the actual time spent and time budgeted.
- Procurement practices for outside contractors.
- Travel and media expenditures.
- Statutory and constitutional duties compared to actual performance.
- Petition Audit Revolving Fund analysis of use and fees generated.
- Staffing criteria for audit assignments.

These areas are discussed in the following sections.

Time Allocation for Performing Audits

The Auditor's Office has allocated 160,000 hours per year to conduct audits. Based upon the total audits issued, the Office expends 1,372 to 1,595 hours per audit. By comparison, the State of Kansas expended 720 to 1,280 hours per audit for 2003 and 2002, respectively. The State of Nebraska expended 330 to 410 hours per audit during those fiscal years.

Attempts to obtain overall industry benchmarks are not available because of the lack of a homogenous environment. Variations exist based upon the type of audit responsibility, conditions encountered and the scope of the reviews as well as regulatory, statutory or constitutional requirements. Each state or federal agency reviewed had differing mandates and processes by which to respond to those mandates.

For example, Federal Offices of Inspector General were subject to a significant disparity in the time allocated to issuance of reports. Of the fifteen OIGs responding to a President's Council on Integrity and Efficiency (PCIE) survey, 10 indicated that their studies take 10 to 25 weeks to complete. The remaining 5 indicated the studies take 25-52 weeks to complete.

Additionally, there are no resources available from the National Association of State Auditors, Comptrollers and Treasurers (NASACT) to track the hours used by States in performing various audits since they discontinued their survey in 1998.

A comparison the SAO's budgeted versus actual hours disclosed the following:

Audit Type	2003 *		2002 *		2001 *	
	Budget	Actual	Budget	Actual	Budget	Actual
Performance	1,819	2,146	1,411	1,848	1,043	1,780
State	1,864	1,758	2,505	1,778	1,621	1,262
County	1,447	1,721	1,173	1,543	983	1,422
Petition	444	533	833	379	400	342

* Per audit average, based upon reports issued. Budgeted hours are not inclusive of manager, director or deputy state auditors time. Budgeted hours are determined based upon reports issued during the year. Actual hours related to those reports may have been performed in a prior year. Additionally budgeted hours may be for audits that may be issued in subsequent years.

The following schedule reflects the total allocation of hours for Fiscal Years 2001-2003:

Audit Type	2003		2002		2001	
	Budget	Actual	Budget	Actual	Budget	Actual
Performance	47,795	40,706	47,658	38,852	32,122	41,487
State	67,735	58,362	74,953	61,817	52,466	52,742
Local (Includes County & Petition)	45,585	55,281	52,294	58,506	68,230	58,416
Total	161,115	154,349	174,905	159,175	152,818	152,645

The budgeting process for performance audits has improved over the three year audit period as the SAO becomes more proficient in determining the hourly requirements of each audit and management of the audits has improved to more quickly resolve less efficient audit efforts. The total hours expended on performance audits issued has increased by over 45% since 2001. The increase in efforts expended for performance audits is consistent with a consensus of government audit officials related to audit hours expended in performance audits relative to financial audits. We also observed that for fiscal year 2003 the SAO expended 32% of the audit hours on performance auditing. By comparison, the State of Kansas expended 95% of their effort on performance audits and 5% on compliance and control audits. The State of Nebraska conducts no performance audits therefore all resources are dedicated to financial compliance audits.

No recommendations are made for this area.

State Auditor's Response:

In addition to the responses provided above, we would again call your attention to a few other matters in your report that you should reconsider. As was discussed with you at the exit conference, in the section entitled "Time Allocation for Performing Audits", we do not believe this information accurately reflects the performance of the SAO. We do allocate approximately 160,000 hours each fiscal year to conduct audits. Based upon audit issued during fiscal years 2003, 2002 and 2001 of 107, 111, and 126, respectively (actual less contracted counties), my office expends an average of 1,270 to 1,495 hours on each audit.

Later in this same section, you have included a table intended to show a comparison of the SAO's budget versus actual hours on individual audits. It is our understanding that the "Budget" numbers reflect the average hours planned to be used on future audits based on audits issued in an earlier period, while the "Actual" hour amount is an average based on audit reports issued during the noted fiscal year. We do not believe that is a valid or accurate comparison, regardless of the explanations offered. The second table that reflects the total allocation of hours for fiscal years 2001 through 2003 is a more accurate comparison of budget versus actual hours.

Lastly, in the seventh paragraph of this same section, your report indicates the "total hours expended on performance audits issued has increased by over 45% since 2001." That increase is based on calendar year totals and reflects the increase from calendar year 2000 to 2003. Also, your comment that "for fiscal year 2003 the SAO expended 32% of the audit hours on performance auditing" is not reflective of the information presented in the earlier table. This may be confusing to the readers of the report.

Audit Conclusion:

The total allocation of hours to perform audits varies from year to year as is evidenced by the reported schedule of the total allocation of hours. Although the actual allocation may vary from the initial allocation, the disclosure provides for the time available to perform contemplated audits. The reported average per audit is based upon completed audits since that analysis provides for a final measure for all audit efforts.

The budget hours referred to in the first table is calculated by dividing the total hours expended for the type of audit by the number of audits by type issued during that period. The explanation provides for a recognition of work-in-process as well as other factors.

The comment regarding percentage of time expended on performance audits is based upon time expended by auditors under the directors of performance audits as well as a factor of time expended performing performance audits as directed by the director of state audits.

Procurement Practices for Outside Contractors

Our analysis of procurement practices noted that outside contractors are procured when necessary in accordance with statutory requirements and state regulations and employ good business practices in their selection and use. The Office of Administration, Division of Purchasing, is involved in the process when required by statutes and regulations. Contractors are evaluated based upon technical proficiency and cost as appropriate. Products and services provided are monitored in an effective manner.

Travel and Media Expenditures

We reviewed travel and media expenditures. A comparative analysis indicated that travel costs have consistently diminished during the audit period. Travel costs have been reduced by 9% since 2001. The scheduling of personnel ensure an efficient use of travel expenditures.

Media expenditures have also been analyzed. Media costs consist of one full-time and two positions that are allocated time for media issues. Total increases in media expenditures of 2% per year reflect salary increases during the audit period.

No recommendations are made for this area.

Statutory and Constitutional Duties Compared to Actual Performance

A review was made of the statutory and constitutionally required audits. All significant audits have been accomplished during the three year audit period. However certain audit and oversight responsibilities were not achieved as required. The audits or responsibilities not performed are:

Entity	RSMo.	Responsibility	Efforts Performed
PA/CA Retirement System	56,809.6	Review CPA Audits	Not addressed
MO Access to Higher Education Trust Fund	166,209	Annual Audit	No monies in trust
Working Capital Revolving Fund	217,595.6	Annual Audit	Not performed
County Advertising and Tourism Trust Fund	67,680	Annual Audit	Fund maintained by county treasurers. Audited on regular audit cycle for 3 rd class counties. SAO has no regular authority to audit the treasurer in 1 st and 2 nd class counties.
St. Charles Fire/Emergency Dispatch Board	321,243 and 29,230	Audit – Frequency not specified.	No audit or review of audit evident.
County Employees Retirement System	50,1030.5	Biannual	Current audit plan includes a review of 2002 – 2004.

Additionally as noted in the prior audit, an Attorney General's Opinion 7-83 provided an opinion that the auditor perform audits on the 45 Judicial Circuits Divisions. Twenty-three of these divisions are included in third class counties which are audited in the 3rd class county audit cycle. Of the remaining 22 Circuits, seven audits were issued during the three year period. The AG opinion does not address the frequency of the audits.

The SAO stated that the audits are scheduled on a priority basis and that other audits were deemed to have higher priority.

We recommend that the SAO develop a plan to perform statutorily mandated audits. Audits that are deemed ineffective or otherwise lack sufficient priority should be reported to the legislature for consideration to eliminate such unimportant or ineffective audits.

State Auditor's Response:

We will continue our efforts to ensure all audit requirements are met in an efficient and effective manner. Legislation was introduced during the 2004 legislative session to correct the audit provisions. However, this legislation was not approved.

Audit Conclusion:

The audit response is appropriate. Continued communication with the legislature is recommended.

Criteria for Determining Staffing Decisions for Audits

The SAO has designed a team approach for the organization. The team is associated with a group of audits to accomplish. The group of audits is readdressed every six months. The team, headed by the audit managers, selects specific audit team members for assignment to each audit. Selection is based upon education, experience, and availability. The process was determined to be effective in establishing appropriate staffing.

Petition Audit Revolving Fund – Analysis of Use and Fees Generated

The analysis of this area indicated that the funds used and the fees generated were consistent. The charges to this fund were therefore appropriate. This resolves a prior audit finding on this issue.

Other Issues – Timing of Audit Report Delivery

The prior audit included a discussion of the length of time to issue an audit report. A primary cause of the average of 134 days from fieldwork completion to delivery of an audit report was determined to be the lack of timely review at the manager level. This cause has been effectively resolved by the SAO, however the average days to issue a report remained at a relatively high 124 days for the sample of audits reviewed and 109 days for Fiscal Year 2003 audits. The current SAO goal is 100 days. Further analysis indicated that the deputy review, which is conducted subsequent to the exit conference and the receipt of the auditee's response, was made on an average of 60 days subsequent to the directors review. This process involves coordination and communications from various parties outside of the SAO. As such there is less control over this aspect of the process. The SAO has established numerous reviews to effectively manage the quality of audit reports issued.

We recommend that an analysis of the quality control process include a review of a manner by which the issuance of reports through top level management can be expedited.

State Auditor's Response:

We are continually improving our quality control process to ensure reports provide timely and needed information to the taxpayers and government officials.

Audit Conclusion:

The audit response provides appropriate recognition of the concern.

Other Prior Audit Matters

The prior audit discussed the "Review of the Department of Transportation." The follow-up to this issue has been discussed in the section entitled "Statutory and Constitutional Duties Compared to Actual Performance."

The prior audit also discussed "Audits of Circuit Courts and All Divisions." The status of this issue is also discussed in the "Statutory and Constitutional Duties Compared to Actual Performance".

McBride, Lock & Associates appreciates the cooperation and assistance received during the audit from both the General Assembly and the State Auditor's Office personnel.

McBride, Lock & Associates

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June 18, 2004