

REPORT ON THE AUDIT

OF THE

OFFICE OF STATE AUDITOR

FOR THE YEARS ENDED JUNE 30, 2007, 2006, 2005 AND 2004

OFFICE OF STATE AUDITOR

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<u>FINANCIAL AUDIT</u>		
Independent Auditor's Report		1
Combined Statements of Receipts, Disbursements, and Changes in Cash and Investments:		
Year Ended June 30, 2007	A-1	3
Year Ended June 30, 2006	A-2	4
Year Ended June 30, 2005	A-3	5
Year Ended June 30, 2004	A-4	6
Comparative Statements of Receipts, General Revenue Fund-State, For Each of the Four Years Ended June 30, 2007	B	7
Comparative Statement of Appropriations and Expenditures, For Each of the Four Years Ended June 30, 2007	C	8
Statement of Changes in General Capital Assets, June 30, 2007, 2006, 2005 and 2004	D	10
Notes to the Financial Statements		11
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting		15
<u>PERFORMANCE AUDIT</u>		
General Assessment and Discussion of Specific Performance Areas		17

FINANCIAL AUDIT

MCBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

Members of the General Assembly
and
Honorable Susan Montee, CPA, Missouri State Auditor
Jefferson City, Missouri

We have audited the accompanying financial statements of the various funds of the Office of State Auditor as of and for the years ended June 30, 2007, 2006, 2005 and 2004, as identified in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements were prepared on a basis of accounting described in Note 1 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 capital 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 accordance with accounting principles generally accepted in the United States of America. The differences, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Office of State Auditor, as of June 30, 2007, 2006, 2005 and 2004 or the results of operations for the years then ended.

In our opinion, the 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 capital assets of the Office of State Auditor as of and for the years ended June 30, 2007, 2006, 2005 and 2004 in conformity with the comprehensive basis of accounting discussed in Note 1, which is a basis of accounting other than generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated December 5, 2007, 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
December 5, 2007

OFFICE OF STATE AUDITOR
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 2007

	State Auditor- Federal Fund	Petition Audit Revolving Trust fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 523,479	\$ 257,145	\$ 780,624
Total Receipts	<u>\$ 523,479</u>	<u>\$ 257,145</u>	<u>\$ 780,624</u>
DISBURSEMENTS			
Personal service	\$ 247,003	\$ 138,369	\$ 385,372
Employee fringe benefits	98,355	58,568	156,923
Expense and equipment	<u>15,365</u>	<u>15,982</u>	<u>31,347</u>
Total Disbursements	<u>\$ 360,723</u>	<u>\$ 212,919</u>	<u>\$ 573,642</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ 162,756</u>	<u>\$ 44,226</u>	<u>\$ 206,982</u>
CASH AND INVESTMENTS, JULY 1, 2006	<u>\$ 597,257</u>	<u>\$ 490,791</u>	<u>\$ 1,088,048</u>
CASH AND INVESTMENTS, JUNE 30, 2007	<u><u>\$ 760,013</u></u>	<u><u>\$ 535,017</u></u>	<u><u>\$ 1,295,030</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
 AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 2006

	State Auditor- Federal Fund	Petition Audit Revolving Trust fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 316,743	\$ 282,119	\$ 598,862
Total Receipts	\$ 316,743	\$ 282,119	\$ 598,862
DISBURSEMENTS			
Personal service	\$ 154,423	\$ 79,691	\$ 234,114
Employee fringe benefits	55,934	32,219	88,153
Expense and equipment	9,768	11,283	21,051
Total Disbursements	\$ 220,125	\$ 123,193	\$ 343,318
RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 96,618	\$ 158,926	\$ 255,544
CASH AND INVESTMENTS, JULY 1, 2005	500,639	331,865	832,504
CASH AND INVESTMENTS, JUNE 30, 2006	\$ 597,257	\$ 490,791	\$ 1,088,048

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

OFFICE OF STATE AUDITOR
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 2005

	State Auditor- Federal Fund	Petition Audit Revolving Trust fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 277,502	\$ 198,778	\$ 476,280
Total Receipts	\$ 277,502	\$ 198,778	\$ 476,280
DISBURSEMENTS			
Personal service	\$ 240,200	\$ 106,431	\$ 346,631
Employee fringe benefits	83,633	46,919	130,552
Expense and equipment	20,079	49,884	69,963
Total Disbursements	\$ 343,912	\$ 203,234	\$ 547,146
RECEIPTS OVER(UNDER) DISBURSMENTS	\$ (66,410)	\$ (4,456)	\$ (70,866)
CASH AND INVESTMENTS, JULY 1, 2004	567,049	336,321	903,370
CASH AND INVESTMENTS, JUNE 30, 2005	\$ 500,639	\$ 331,865	\$ 832,504

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

OFFICE OF STATE AUDITOR
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 2004

	State Auditor- Federal Fund	Petition Audit Revolving Trust fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	\$ 327,222	\$ 272,579	\$ 599,801
Total Receipts	<u>\$ 327,222</u>	<u>\$ 272,579</u>	<u>\$ 599,801</u>
DISBURSEMENTS			
Personal service	\$ 199,343	\$ 109,612	\$ 308,955
Employee fringe benefits	66,464	46,078	112,542
Expense and equipment	<u>10,005</u>	<u>14,993</u>	<u>24,998</u>
Total Disbursements	<u>\$ 275,812</u>	<u>\$ 170,683</u>	<u>\$ 446,495</u>
RECEIPTS OVER(UNDER) DISBURSMENTS	\$ 51,410	\$ 101,896	\$ 153,306
CASH AND INVESTMENTS, JULY 1, 2003	<u>515,639</u>	<u>234,425</u>	<u>750,064</u>
CASH AND INVESTMENTS, JUNE 30, 2004	<u><u>\$ 567,049</u></u>	<u><u>\$ 336,321</u></u>	<u><u>\$ 903,370</u></u>

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,			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Bond registration	\$ 1,013,252	\$ 1,231,169	\$1,071,603	840,199
Audit fees	5,500	5,000	2,958	2,799
Miscellaneous	<u>12,497</u>	<u>4,293</u>	<u>3,023</u>	<u>2,150</u>
Total	<u>\$ 1,031,249</u>	<u>\$ 1,240,462</u>	<u>\$1,077,584</u>	<u>\$ 845,148</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,					
	2007			2006		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE						
Personal service	\$ 5,958,145	\$ 5,565,730	\$ 392,415	\$ 5,732,696	\$ 5,517,148	\$ 215,548
Expense and equipment	884,947	717,074	167,873	884,947	591,586	293,361
Personal service and/or Expenses and Equipment	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	210,215	208,984	1,231	19,349	19,349	0
Total General Revenue Fund - State	\$ 7,053,307	\$ 6,491,788	\$ 561,519	\$ 6,636,992	\$ 6,128,083	\$ 508,909
STATE AUDITOR - FEDERAL FUND						
Personal service	\$ 454,587	\$ 247,003	\$ 207,584	\$ 437,103	\$ 154,423	\$ 282,680
Expense and equipment	30,123	15,365	14,758	30,123	9,768	20,355
Total State Auditor - Federal Fund	\$ 484,710	\$ 262,368	\$ 222,342	\$ 467,226	\$ 164,191	\$ 303,035
CONSERVATION COMMISSION FUND						
Personal service	\$ 40,569	\$ 40,565	\$ 4	\$ 39,009	\$ 38,924	\$ 85
Expense and Equipment	2,611	2,610	1	2,611	2,598	13
Total Conservation Commission Fund	\$ 43,180	\$ 43,175	\$ 5	\$ 41,620	\$ 41,522	\$ 98
PARKS SALES TAX FUND						
Personal service	\$ 20,262	\$ 20,256	\$ 6	\$ 19,483	\$ 19,483	\$ 0
Total Parks Sales Tax Fund	\$ 20,262	\$ 20,256	\$ 6	\$ 19,483	\$ 19,483	\$ 0
SOIL AND WATER SALES TAX FUND						
Personal service	\$ 19,538	\$ 19,533	\$ 5	\$ 18,787	\$ 18,787	\$ 0
Total Soil and Water Sales Tax Fund	\$ 19,538	\$ 19,533	\$ 5	\$ 18,787	\$ 18,787	\$ 0
PETITION AUDIT REVOLVING TRUST FUND						
Personal service	\$ 766,080	\$ 138,369	\$ 627,711	\$ 736,615	\$ 79,691	\$ 656,924
Expenses and Equipment	\$ 31,616	\$ 15,982	\$ 15,634	\$ 31,616	\$ 11,283	\$ 20,333
Total Petition Audit Revolving Trust Fund	\$ 797,696	\$ 154,351	\$ 643,345	\$ 768,231	\$ 90,974	\$ 677,257
Total All Funds	\$ 8,418,693	\$ 6,991,471	\$ 1,427,222	\$ 7,952,339	\$ 6,463,040	\$ 1,489,299

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,					
	2005			2004		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE						
Personnel service	\$ 5,748,116	\$ 5,745,273	\$ 2,843	\$ 5,538,153	\$ 5,510,618	\$ 27,535
Expense and equipment	902,947	641,931	261,016	895,575	712,330	183,245
Payment of real property leases, related services utilities and systems furniture; structural modifications for new FTE - expense and equipment	66,144	53,856	12,288	126,054	59,190	66,144
Total General Revenue Fund	\$ 6,717,207	\$ 6,441,060	\$ 276,147	\$ 6,559,782	\$ 6,282,858	\$ 276,924
STATE AUDITOR - FEDERAL FUND						
Personal service	\$ 478,432	\$ 240,200	\$ 238,232	\$ 465,232	\$ 199,343	\$ 265,889
Expense and equipment	44,967	20,079	24,888	44,967	10,005	34,962
Total State Auditor - Federal Fund	\$ 523,399	\$ 260,279	\$ 263,120	\$ 510,199	\$ 209,348	\$ 300,851
GAMING COMMISSION FUND						
Personal service	\$ 60,247	\$ 2,655	\$ 57,592	\$ 59,047	\$ 3,513	\$ 55,534
Expense and equipment	22,580	102	22,478	22,580	75	22,505
Total Gaming Commission Fund	\$ 82,827	\$ 2,757	\$ 80,070	\$ 81,627	\$ 3,588	\$ 78,039
CONSERVATION COMMISSION FUND						
Personal service	\$ 39,009	\$ 33,948	\$ 5,061	\$ 37,809	\$ 37,809	\$ 0
Expense and equipment	2,611	1,995	616	2,611	0	2,611
Total Conservation Commission Fund	\$ 41,620	\$ 35,943	\$ 5,677	\$ 40,420	\$ 37,809	\$ 2,611
PARKS SALES TAX FUND						
Personal service	\$ 19,483	\$ 18,744	\$ 739	\$ 18,883	\$ 18,883	\$ 0
Total Parks Sales Tax Fund	\$ 19,483	\$ 18,744	\$ 739	\$ 18,883	\$ 18,883	\$ 0
SOIL AND WATER SALES TAX FUND						
Personal service	\$ 18,787	\$ 18,744	\$ 43	\$ 18,187	\$ 18,187	\$ 0
Total Soil and Water Sales Tax Fund	\$ 18,787	\$ 18,744	\$ 43	\$ 18,187	\$ 18,187	\$ 0
STATE HIGHWAY DEPARTMENT FUND						
Personal service	\$ 0	\$ 0	\$ 0	\$ 514,901	\$ 432,958	\$ 81,943
Expense and equipment	0	0	0	19,989	15,202	4,787
Total State Highway Department Fund	\$ 0	\$ 0	\$ 0	\$ 534,890	\$ 448,160	\$ 86,730
PETITION AUDIT REVOLVING TRUST FUND						
Personal service	\$ 786,615	\$ 106,431	\$ 680,184	\$ 567,415	\$ 109,612	\$ 457,803
Expense and equipment	52,616	49,884	2,732	52,616	14,993	37,623
Total Petition Audit Revolving Trust Fund	\$ 839,231	\$ 156,315	\$ 682,916	\$ 620,031	\$ 124,605	\$ 495,426
Total All Funds	\$ 8,242,554	\$ 6,933,842	\$ 1,308,712	\$ 8,384,019	\$ 7,143,438	\$ 1,240,581

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, 2003	\$ 1,160,460	\$ 78,197	\$ 1,238,657
Additions	102,414	0	102,414
Dispositions	<u>(19,628)</u>	<u>0</u>	<u>(19,628)</u>
BALANCE, June 30, 2004	\$ 1,243,246	\$ 78,197	\$ 1,321,443
Additions	137,513	0	137,513
Dispositions	<u>(116,957)</u>	<u>0</u>	<u>(116,957)</u>
BALANCE, June 30, 2005	\$ 1,263,802	\$ 78,197	\$ 1,341,999
Additions	112,132	0	112,132
Dispositions	<u>(475,384)</u>	<u>(13,322)</u>	<u>(488,706)</u>
BALANCE, June 30, 2006	\$ 900,550	\$ 64,875	\$ 965,425
Additions	108,562	0	108,562
Dispositions	<u>(168,007)</u>	<u>0</u>	<u>(168,007)</u>
BALANCE, June 30, 2007	<u>\$ 841,105</u>	<u>\$ 64,875</u>	<u>\$ 905,980</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, 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. 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 re-appropriated 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.

Fiscal year ended June 30, 2005, was the last year in which appropriations were received from this fund.

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. Fiscal year ended June 30, 2004, was the last year in which appropriations were received from this fund.

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,				
	2007	2006	2005	2004
DISBURSEMENTS PER EXHIBIT A \$	360,723	\$ 220,125	\$ 343,912	275,812
Employee fringe benefits	(98,355)	(55,934)	(83,633)	(66,646)
EXPENDITURES PER EXHIBIT C	<u>\$ 262,368</u>	<u>\$ 164,191</u>	<u>\$ 260,279</u>	<u>\$ 209,348</u>

Petition Audit Revolving Trust Fund				
Year Ended June 30,				
	2007	2006	2005	2004
DISBURSEMENTS PER EXHIBIT A \$	212,919	\$ 123,193	\$ 203,234	170,683
Employee fringe benefits	(58,568)	(32,219)	(46,919)	(46,078)
EXPENDITURES PER EXHIBIT C	<u>\$ 154,351</u>	<u>\$ 90,974</u>	<u>\$ 156,315</u>	<u>\$ 124,605</u>

4. General Capital Assets

General capital assets are recorded at cost.

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, 2007, these accounts receivable totaled \$152,799 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 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 Susan Montee, CPA
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, 2007, 2006, 2005 and 2004 and have issued our report thereon dated December 5, 2007. We conducted our audits in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Office of the State Auditor, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Auditor's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Office of the State Auditor's financial statements that is more than inconsequential will not be prevented or detected by Office of the State Auditor's internal control.


A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Office of the State Auditor's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

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
December 5, 2007

PERFORMANCE AUDIT

McBRIDE, LOCK & ASSOCIATES

Members of the General Assembly
And
Honorable Susan Montee, CPA
Jefferson City, Missouri

We have performed an examination of the Office of the State Auditor for the years ended June 30, 2007, 2006, 2005 and 2004 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 audits 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 the following hours per fiscal year conducting audits:

Fiscal	
<u>Year</u>	<u>Hours</u>
2007	131,000
2006	139,400
2005	156,700
2004	157,160

Our analysis of the audit plan and performance of audits concluded that the planning, management and conduct of the audits is appropriate except as follows.

A test of budgeted hours per audit to actual hours expended indicates that the budgets were exceeded on 89% of those tested. Further analysis indicated that the actual hours expended exceeded the budget by 35%. Of the audits tested that exceeded budgets (24) the budget averaged 906 hours. The actual time expended on those audits was 1227 hours.

Actual hours per audit exceed budgeted hours for a variety of reasons. These include discovery of fraud, inexperienced auditors, auditee problems and poor records, changes in audit scope, and weather. However, when the rate exceeds 85% and many of the audits are repetitive, the indication is that the budgets are not being used as an effective tool in managing the audits.

The State Auditor has established an audit plan to determine the capability to perform statutorily mandated audits and the additional audits necessary for proper audit analysis of state and local funds. The time budgets are a significant part of developing that management tool.

The budgets are currently ineffective in assuring that audits are completed in a more efficient manner. The ultimate effect is that the audit plan cannot be fully accomplished or additional audits could be performed.

We recommend that the time budgeting process be modified to effectively manage and control audit assignments.

State Auditor Response:

Time budgets are estimates established at the beginning of each audit. As indicated, different reasons affect the actual hours needed to complete the audit and ensure its overall quality. We are constantly monitoring our overall office audit plan, the individual audit budgets, and the actual hours spent. We will continue our efforts in this area.

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 decreased in 2005 and then increased sharply in 2007. The decrease in 2005 of 30% can be attributed to a staff reduction of about 30 people. The sharp increase in 2007 from 2006 of about 50% is because of several items including a return to 2005 level of travel, a mileage rate increase for those employees still being compensated for driving their own vehicles, an increase in hotel

rate, fees, lodging taxes, and an increase in the meal allowance amount. There was an overall decrease of 29% from 2004 to 2007.

Media expenditures have also been analyzed. Media costs consist of one FTE in addition to two PTE all costs associated with media are expensed as payroll. All other expenses in relation to media are not distinguished from other expenses incurred by other departments. During the audit period the total media expenses went from \$244,006 in 2004 to \$202,567 in 2007.

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 four 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 (when applicable)	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 2006 – 2008.

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. Numerous of these divisions are included in third class counties which are audited in the 3rd class county audit cycle. Of the remaining Circuits, several other audits were issued during the four 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.

This is a repeat finding from the prior audit. The State Auditor reported to the legislature these issues as recommended, however, no legislative action resulted.

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:

As stated in the finding, we have identified and reported to the legislature those audit requirements we believe are in need of change. We will continue to effectively use our available resources and audit those applicable entities and governments as frequently as possible.

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. However, the following matter was noted.

A test was performed to determine whether all audit costs incurred during the performance of petition audits were billed and collected. The audit tested 18 petition audits performed and determined that of the job costs accumulated of \$550,163 on these audits, that only \$ 363,887 was billed to the entity. This reflects only 66% of the total costs.

Petition audits are required to be performed by the State Auditor in accordance with RSMo 29.230.2. Subsection (4) of this statute states, in part, "The political subdivision shall pay the actual cost of the audit."

Further analysis indicated that part of the unbilled costs resulted from audit services that were performed on Courts that were not part of the scope of the petitioned audit. These audits were performed as mandated by statute and this represents an efficient use of state resources. This is an appropriate reduction and therefore the added audit scope write-down is appropriate. These costs however accumulated only \$17,373 and modified the original write-down to 32% from 34%.

The State Auditor justified write-downs of audit costs as being a combination of many factors including costs of the petitioner meeting and public delivery, research time, and analysis of related issues that may not have been directly relevant to the petition.

We recommend that petition audit costs be billed in accordance with RSMo 29.230.2.

State Auditor's Response:

The practice of not billing for some costs has been standard in this office for many years. However, we will evaluate the costs associated with those activities for which we have not billed governments, and formally document rationale. Additionally, effective January 1, 2008, we have increased our estimates of costs associated with such petition audits.

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 124 days from fieldwork completion to delivery of an audit report was determined to be the lack of timely review at the manager level. However, the average days to issue a report increased to 132 days for the sample of audits reviewed. The previously stated SAO goal is 100 days. A variety of causes in delivering final reports continue to exist. These include delays in receipt of auditee responses, coordinating the timing of quality control processes between seniors, managers and directors, staff turnover, initial quality of field efforts and the complexity of audit issues. 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 can be expedited.

State Auditor's Response:

The auditor's sample showed the average days to deliver a report at 132 days. However, for calendar years 2004, 2005, 2006 and 2007, the average number of days for all audits delivered was 125, 131, 120 and 96 respectively. We believe significant improvement has been made in this area and we will work to continue reducing delivery times, while still ensuring the accuracy and overall quality of our reports.

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

McBride, Lock & Associates
December 5, 2007