STATE AUDITOR'S OFFICE
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REPORT ON THE AUDIT OF THE OFFICE OF STATE AUDITOR

FOR THE YEARS ENDED JUNE 30, 2011, 2010, 2009, AND 2008

Purk & Associates, P.C.

CPAs and Business Advisors

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Independent Auditors' Report

Members of the General Assembly and
Honorable Thomas A. Schweich, CPA, Missouri State Auditor
Jefferson City, Missouri

We have audited the accompanying financial statements of the Office of State Auditor (the "Office") as of and for the years ended June 30, 2011, 2010, 2009, and 2008, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 significant estimates made by management, as well as evaluating the overall financial statement 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, pursuant to Section 21.760, RSMo as requested by the Missouri General Assembly, 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. This basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles and is 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

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 State Auditor-Federal Fund and Petition Audit Revolving Trust Fund; the receipts of the General Revenue Fund-State; the appropriations and expenditures of the various funds; and general capital assets of the Office of the State Auditor as of and for the years ended June 30, 2011, 2010, 2009, and 2008 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 have also issued our report dated June 28, 2012, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Rubin & Associates, P.C.

June 28, 2012
St. Louis, Missouri

Certified Public Accountants

OFFICE OF STATE AUDITOR

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
For the Year Ended June 30, 2011

	State Auditor-Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	$ 1,190,003	$ 441,311	$ 1,631,314
Total Receipts	1,190,003	441,311	1,631,314
DISBURSEMENTS			
Personal service	745,938	202,398	948,336
Employee fringe benefits	299,728	95,467	395,195
Expense and equipment	30,123	31,616	61,739
Total Disbursements	1,075,789	329,481	1,405,270
RECEIPTS OVER (UNDER) DISBURSEMENTS	114,214	111,830	226,044
CASH AND INVESTMENTS, JULY 1, 2010	759,654	542,694	1,302,348
CASH AND INVESTMENTS, JUNE 30, 2011	$ 873,868	$ 654,524	$ 1,528,392

See the accompanying notes to financial statements.

OFFICE OF STATE AUDITOR

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
For the Year Ended June 30, 2010

	State Auditor-Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	$ 862,123	$ 1,065,464	$ 1,927,587
Total Receipts	862,123	1,065,464	1,927,587
DISBURSEMENTS			
Personal service	448,836	715,555	1,164,391
Employee fringe benefits	176,892	291,166	468,058
Expense and equipment	27,923	31,343	59,266
Total Disbursements	653,651	1,038,064	1,691,715
RECEIPTS OVER (UNDER) DISBURSEMENTS	208,472	27,400	235,872
CASH AND INVESTMENTS, JULY 1, 2009	551,182	515,294	1,066,476
CASH AND INVESTMENTS, JUNE 30, 2010	$ 759,654	$ 542,694	$ 1,302,348

See the accompanying notes to financial statements.

OFFICE OF STATE AUDITOR

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
For the Year Ended June 30, 2009

	State Auditor-Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	$ 226,593	$ 988,328	$ 1,214,921
Total Receipts	226,593	988,328	1,214,921
DISBURSEMENTS			
Personal service	302,325	689,723	992,048
Employee fringe benefits	113,662	267,819	381,481
Expense and equipment	18,163	28,955	47,118
Total Disbursements	434,150	986,497	1,420,647
RECEIPTS OVER (UNDER) DISBURSEMENTS	(207,557)	1,831	(205,726)
CASH AND INVESTMENTS, JULY 1, 2008	758,739	513,463	1,272,202
CASH AND INVESTMENTS, JUNE 30, 2009	$ 551,182	$ 515,294	$ 1,066,476

See the accompanying notes to financial statements.

OFFICE OF STATE AUDITOR

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
For the Year Ended June 30, 2008

	State Auditor-Federal Fund	Petition Audit Revolving Trust Fund	Total (Memorandum Only)
RECEIPTS			
Audit fees	$ 479,767	$ 336,283	$ 816,050
Total Receipts	479,767	336,283	816,050
DISBURSEMENTS			
Personal service	337,070	233,453	570,523
Employee fringe benefits	127,435	92,819	220,254
Expense and equipment	16,537	31,565	48,102
Total Disbursements	481,042	357,837	838,879
RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,275)	(21,554)	(22,829)
CASH AND INVESTMENTS, JULY 1, 2007	760,014	535,017	1,295,031
CASH AND INVESTMENTS, JUNE 30, 2008	$ 758,739	$ 513,463	$ 1,272,202

See the accompanying notes to financial statements.

OFFICE OF STATE AUDITOR

COMPARATIVE STATEMENTS OF RECEIPTS
GENERAL REVENUE FUND-STATE

	Year Ended June 30,			
	2011	2010	2009	2008
Bond registration	$ 252,024	$ 190,808	$ 118,764	$ 539,400
Audit fees	60,131	8,542	4,170	6,176
Miscellaneous	2,410	1,247	2,772	5,369
Total	$ 314,565	$ 200,597	$ 125,706	$ 550,945

OFFICE OF STATE AUDITOR

COMPARATIVE STATEMENTS OF APPROPRIATIONS AND EXPENDITURES

	Year ended June 30,					
	2011			2010		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE						
Personal service	$ 5,310,903	$ 5,100,366	$ 210,537	$ 5,264,503	$ 4,910,601	$ 353,902
Expense and equipment	1,207,859	1,045,557	162,302	1,591,679	1,474,394	117,285
Auditor state owned building	235,800	229,518	6,282	213,985	209,833	4,152
Auditor statewide leasing	14,604	13,277	1,327	23,424	16,181	7,243
Total General Revenue Fund	6,769,166	6,388,718	380,448	7,093,591	6,611,009	482,582
STATE AUDITOR - FEDERAL FUND						
Personal service	848,993	745,938	103,055	482,270	448,836	33,434
Expense and equipment	30,123	30,123	-	30,123	27,923	2,200
Total State Auditor - Federal Fund	879,116	776,061	103,055	512,393	476,759	35,634
CONSERVATION COMMISSION FUND						
Personal service	43,040	43,040	-	43,040	43,040	-
Expense and equipment	2,611	2,404	207	2,611	2,606	5
Total Conservation Commission Fund	45,651	45,444	207	45,651	45,646	5
PARKS SALES TAX FUND						
Personal service	21,496	21,496	-	21,496	21,496	-
Total Parks Sales Tax Fund	21,496	21,496	-	21,496	21,496	-
SOIL AND WATER SALES TAX FUND						
Personal service	20,728	20,728	-	20,728	20,728	-
Total Soil and Water Sales Tax Fund	20,728	20,728	-	20,728	20,728	-
PETITION AUDIT REVOLVING TRUST FUND						
Personal service	812,734	202,398	610,336	812,734	715,555	97,179
Expense and equipment	31,616	31,616	-	31,616	31,343	273
Total Petition Audit Revolving Trust Fund	844,350	234,014	610,336	844,350	746,898	97,452
Total All Funds	$ 8,580,507	$ 7,486,461	$ 1,094,046	$ 8,538,209	$ 7,922,536	$ 615,673

See the accompanying notes to financial statements.

OFFICE OF STATE AUDITOR

COMPARATIVE STATEMENTS OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	2009			2008		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE						
Personal service	$ 5,821,999	$ 5,190,381	$ 631,618	$ 6,142,150	$ 5,670,772	$ 471,378
Expense and equipment	1,433,430	1,335,290	98,140	884,947	769,540	115,407
Auditor state owned building	246,698	241,113	5,585	240,651	236,187	4,464
Auditor statewide leasing	22,491	20,996	1,495	26,038	19,851	6,187
Total General Revenue Fund	7,524,618	6,787,780	736,838	7,293,786	6,696,350	597,436
STATE AUDITOR - FEDERAL FUND						
Personal service	482,270	302,325	179,945	468,224	337,070	131,154
Expense and equipment	30,123	18,163	11,960	30,123	16,537	13,586
Total State Auditor - Federal Fund	512,393	320,488	191,905	498,347	353,607	144,740
CONSERVATION COMMISSION FUND						
Personal service	43,040	43,040	-	41,786	41,786	-
Expense and equipment	2,611	2,611	-	2,611	2,563	48
Total Conservation Commission Fund	45,651	45,651	-	44,397	44,349	48
PARKS SALES TAX FUND						
Personal service	21,496	21,496	-	20,870	20,870	-
Total Parks Sales Tax Fund	21,496	21,496	-	20,870	20,870	-
SOIL AND WATER SALES TAX FUND						
Personal service	20,728	20,728	-	20,124	20,124	-
Total Soil and Water Sales Tax Fund	20,728	20,728	-	20,124	20,124	-
PETITION AUDIT REVOLVING TRUST FUND						
Personal service	812,734	689,723	123,011	789,062	233,453	555,609
Expense and equipment	31,616	28,955	2,661	31,616	31,565	51
Total Petition Audit Revolving Trust Fund	844,350	718,678	125,672	820,678	265,018	555,660
Total All Funds	$ 8,969,236	$ 7,914,821	$ 1,054,415	$ 8,698,202	$ 7,400,318	$ 1,297,884

See the accompanying notes to financial statements.

OFFICE OF STATE AUDITOR

STATEMENT OF CHANGES IN GENERAL CAPITAL ASSETS

	Office Equipment	Motor Vehicles	Total
BALANCE, July 1, 2007	$ 841,107	$ 64,875	$ 905,982
Additions	98,940	-	98,940
Dispositions	(197,333)	(23,348)	(220,681)
BALANCE, June 30, 2008	742,714	41,527	784,241
Additions	86,828	-	86,828
Dispositions	(135,742)	-	(135,742)
BALANCE, June 30, 2009	693,800	41,527	735,327
Additions	89,390	-	89,390
Dispositions	(84,428)	(21,951)	(106,379)
BALANCE, June 30, 2010	698,762	19,576	718,338
Additions	116,664	-	116,664
Dispositions	(4,892)	-	(4,892)
BALANCE, June 30, 2011	$ 810,534	$ 19,576	$ 830,110

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Basis of Presentation

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

Receipts, disbursements, 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 net assets or other balances of the related funds but are used only to account for and control the Office's expenditures from amounts appropriated by the General Assembly.

Expenditures 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.

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

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

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.

Fiscal Authority and Responsibility

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

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

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

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

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

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

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

Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a non-contributory plan) and may participate in the State's health care, optional life insurance, cafeteria, deferred compensation and deferred compensation incentive plans. For employees hired after January 1, 2011, the retirement plan is contributory. 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 involves 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 deferred compensation incentive plan was suspended by the State effective March 1, 2010.

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.

Subsequent Events

Management has evaluated the impact on the financial statements, if any, of subsequent events through June 28, 2012. Management is not aware of any subsequent events that would have an impact on the financial statements.

2. CASH AND CASH EQUIVALENTS

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

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,			
	2011	2010	2009	2008
Disbursements Per Exhibit A	$ 1,075,789	$ 653,651	$ 434,150	$ 481,042
Employee Fringe Benefits	(299,728)	(176,892)	(113,662)	(127,435)
Expenditures Per Exhibit C	$ 776,061	$ 476,759	$ 320,488	$ 353,607

	Petition Audit Revolving Trust Fund Year Ended June 30,			
	2011	2010	2009	2008
Disbursements Per Exhibit A	$ 329,481	$ 1,038,064	$ 986,497	$ 357,837
Employee Fringe Benefits	(95,467)	(291,166)	(267,819)	(92,819)
Expenditures Per Exhibit C	$ 234,014	$ 746,898	$ 718,678	$ 265,018

4. CAPITAL ASSETS

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

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Independent Auditors' 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 Thomas A. Schweich, CPA, Missouri State Auditor
Jefferson City, Missouri

We have audited the special purpose financial statements of the Office of State Auditor (the "Office") as of and for the years ended June 30, 2011, 2010, 2009, and 2008, and have issued our report thereon dated June 28, 2012. We conducted our audits in accordance with auditing 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

Management of the Office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements of the Office of 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 opinion 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 State Auditor's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant 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 the Office of 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.

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

Pueh & Associates, P.C.

Certified Public Accountants

June 28, 2012
St. Louis, Missouri

PERFORMANCE EXAMINATION

Purk & Associates, P.C.
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CPAs and Business Advisors

Independent Accountants' Report

Members of the General Assembly and
Honorable Thomas A. Schweich, CPA, Missouri State Auditor
Jefferson City, Missouri

We have examined the managerial operations of the Office of State Auditor (the "Office") as outlined below for the years ended June 30, 2011, 2010, 2009 and 2008 as instructed by the Missouri General Assembly in accordance with RSMo Section 21.760 - Audit of the state auditor's office ("managerial operations"):

Management of the Office asserts that it has performed the functions required by State statutes in a professional, efficient and economical manner. Our analysis has, per specific request of the Missouri General Assembly in accordance with RSMo Section 21.760, 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, evaluation of expenditures, analysis of uncollected accounts receivable and write-offs.
- Staffing criteria for audit assignments.
- Length of time between completion of fieldwork and issuance of a report.
- Fiscal notes prepared for initiative purposes.
- Operating efficiencies of maintaining the satellite offices.

The Office's management is responsible for the assertion and the fair presentation of the information provided for our examination. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the managerial operations of the Office and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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In our opinion, the assertion by the management of the Office that it has performed the functions required by State statutes in a professional, efficient, and economical manner is fairly stated, in all material respects, in conformity with the performance measures specifically requested by the Missouri General Assembly pursuant to RSMo Section 21.760.

The results of specific performance areas are discussed in the following sections.

Time Allocation for Performing Audits

The Office has allocated the following budgeted and actual hours per calendar year conducting audits:

Calendar Year	Budgeted Hours	Actual Hours	Full-time Field Audit Staff
2011	104,160	103,835	62
2010	114,240	110,124	68
2009	117,600	114,967	70
2008	136,080	127,708	81

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:

We tested 26 jobs, which is approximately 5% of the population during the 4 year period ended June 30, 2011. A test of budgeted hours per audit to actual hours expended indicates that the budgets were exceeded on 77% of those tested. Further analysis indicated that the actual hours expended exceeded the budget by 19%. Of the audits tested that exceeded the budget (20), the budget averaged 1,109 hours. The actual time expended on those audits, on average, was 1,321 hours, 212 hours over budget on average. The overall hours over budget for audits with fieldwork ending during the fiscal years under audit was 89 hours per job on average. The breakdown by fiscal year is as follows:

Fiscal Year	Average Hours Over Budget per Audit
2011	62
2010	93
2009	77
2008	124

Actual hours per audit exceeded budgeted hours for a variety of reasons. These include discovery of fraud, new audit staff, auditee problems including inadequate records and changes in audit scope. Issues are more likely to come up during petition audits as these are typically performed when citizens believe that there is an issue of fraud or inadequate records.

Of the 26 jobs selected for testing, 6 jobs (representing approximately 7% of the population) were selected for testing. Of the 20 audits tested that were over the budgeted hours, 5 were petition audits. On average, these audits exceeded the budget by 261 hours (or approximately 18% of budgeted hours).

Although the excess of actual hours over budget hours is significant, the trend noted is fewer audits over budget and fewer hours over budget, in general, over the course of the four year period under audit and in comparison to the previous four year audit period.

We recommend that the Office continues to monitor the individual audit budgets against actual hours spent and revise future budgets for realistic expectations as part of an overall continuous audit process improvement.

State Auditor's Response:

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

Procurement Practices for Outside Contractors

Our analysis of procurement practices noted that the 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 examined travel and media expenditures. A comparative analysis indicated that travel costs increased approximately 43% from fiscal year 2007 to 2008 and then increased again in fiscal year 2009 by approximately 10%. During fiscal years 2010 and 2011, travel costs began to decrease again at approximately 23% and 18%, respectively. Overall, actual total travel expenses are within approximately 1% of fiscal year 2007 levels. Travel expenses will vary based on the fluctuations in fuel and other travel costs as well as the type and location of each individual audit job. The Office cannot plan for the various petition audits that will come through their office. There were significant travel expenses incurred for one large petition audit in particular which spanned 2008 and 2009.

Media expenditures have also been analyzed. Media costs consisted of one to two full-time employees during the fiscal years under audit. Only a portion of work performed by these employees is devoted to media related responsibilities. 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. The media expenses for the fiscal years under audit were as follows:

Fiscal Year	Media Related Wages
2011	58,200
2010	59,900
2009	41,111
2008	34,384

The overall increase in media related wages for the fiscal years under audit was due mostly to an increase in the number of personnel dedicated to media related duties as well as an increase in the salaries of these positions.

No recommendations are made for this area.

<u>Statutory and Constitutional Duties Compared to Actual Performance</u>

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 include:

Entity	RSMo	Responsibility	Efforts Performed
Working Capital Revolving Fund	217.595.6	Annual Audit	Not performed
Transportation Development Dist.	238.272	3 Year Audit	An overall review is conducted each year and individual Transportation Development Districts are audited based on SAO criteria
DED Tax Credits - Cost Benefit Analysis	620.1300	4 Year	Audits are performed, but not in accordance with the frequency required by the RSMo
County Employees Retirement System	50.1030.5	Biannual Audit	Most recent audit performed through 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. Through calendar year 2009, many of these divisions were included in third class counties which are audited in the third class county audit cycle. Effective in calendar year 2010, the SAO no longer audits the circuit courts in conjunction with the third-class county audits; however, the circuit court audits are included when evaluating the Office's six month audit planning process. Of the remaining Circuit Divisions, several other audits were issued during the four year period. The Attorney General's opinion does not address the frequency of the audits.

The Office stated that the audits are scheduled on a priority basis and that other audits were deemed to have higher priority. Audits that are required by a particular RSMo, but do not designate a time period or audit frequency or that are stated as "subject to" rather than "shall" are considered discretionary by the Office and are performed according to priority based on perceived public interest or significance as determined by the Office. Furthermore, based on inquiry of Office management, the Office has taken advantage of risk assessment standards and related strategies to the extent allowed by Government Auditing Standards and statutory mandate to maximize the scope of entities audited, the number of audits, and the effectiveness of such audits based on assessed risks.

We recommend that the Office 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, or to reduce the frequency and/or scope of statutorily mandated audits identified to be of lower risk based on prior results and/or assessed risks. We understand House Bill 2106 was presented to the legislature in the 2012 session that would have consolidated the SAO's responsibilities and addressed some of these issues; however, the bill was not successful.

State Auditor's Response:

A bill was before the legislature in the 2012 session (House Bill 2106) that would have consolidated our responsibilities and addressed each of the exceptions cited in the finding; however, this bill was not successful. We plan to pursue this legislation again in the 2013 legislative session.

As noted in a previous finding, our full-time field audit staff decreased from 81 field audit staff at the beginning of calendar year 2008 to 62 field audit staff at the beginning of calendar year 2011. This has a direct impact on the audits we can perform. In addition, the statewide single audit required by the federal Single Audit Act of 1996, requires a significant amount of our resources. The American Recovery and Reinvestment Act 2009 (Federal Stimulus) has required us to devote even more resources to the annual fiscal year 2009, 2010, and 2011 statewide single audits. We complete the audits that have a statutorily mandated frequency to the best of our ability, however, we cannot ignore our other audit responsibilities.

In addition, although we have not performed a separate audit and/or issued a separate audit report of the Working Capital Revolving Fund, we have audited revenues and expenditures of this fund in conjunction with our annual audit of the State of Missouri Comprehensive Annual Financial Report (CAFR) from fiscal 2005 through fiscal 2011, and will again audit this fund in conjunction with the fiscal year 2012 CAFR audit.

We will continue to monitor and effectively use our available resources.

Petition Audit Revolving Fund Analysis

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 examination tested 13 petition audits performed and determined that of the job costs accumulated of $787,819 on these audits, that only $512,342 was billed to the entity. This reflects only 65% of the total costs. Overall, the Office billed 74% of the costs incurred during the audit period.

Petition audits are required to be performed by the Office 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."

During the majority of the period under audit, the individual in the position of State Auditor had a policy of not charging more for petition audits than was quoted as the estimated initial cost. This resulted in significant variances between the costs incurred and fees collected. The current State Auditor, who has been in place since January 2011, has not continued this policy and is billing new petition audits for their actual costs as considered reasonable. Furthermore, the Office stated they are being more conservative with their time and cost estimates for petition audits.

In addition to the policy above, reasons for billing less than actual costs are 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.

Uncollected accounts receivable unrelated to the reasons above totaled $7,993 due to the disincorporation of one of the villages that were subject to a petition audit during the period under audit. This amount was written off in its entirety once documentation was received that the village had in fact been disincorporated.

We recommend that petition audit costs be billed in their entirety as is considered reasonable and in accordance with RSMo 29.230.2, as management of the Office has asserted they have begun doing near the end of the audit period. Additionally, we recommend the Office continue its practice of estimating more conservatively for petition audits (i.e. increase the cost estimates) such that actual costs will better approximate budgets, and consequently, be billed for accordingly.

State Auditor's Response:

We increased the cost estimates on petition request forms in 2009 and again in 2010; however, because of the time it takes for the chief petitioner to gather signatures, the election authority to verify the signatures, and our office to incorporate the petition audits into our audit plan and complete the audit, there was a time lag as to when the effects of the increased estimates were noticed. After estimates were increased, the majority of audits were billed 100 percent of costs. The exceptions were predominately instances where fraud or excessive problems were identified.

For all audits initiated in 2011 and 2012, all audit costs are billed, even if the actual costs exceed the estimated cost on the petition request form. We will continue to monitor estimated costs included on the petition request forms.

Criteria for Determining Staffing Decisions for Audits

The Office has designed a team approach for the organization. Each team is associated with a group of audits to accomplish. The group of audits is re-addressed every six months. The teams, headed by the audit managers, select 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.

Timing of Audit Report Delivery

The prior audit report stated that the average days between the completion of fieldwork and report issuance for the audits selected for testing for the previous audit period was 132 days. The calculations for the current period under audit include all audits with fieldwork ending during the range of July 1, 2007 through June 30, 2011. The average days between the end of fieldwork and report issuance for this group was 135 days. The following is a breakdown by fiscal year of the days between the end of fieldwork and report issuance:

Fiscal Year	Days between End of Fieldwork and Report Issuance
2011	122
2010	139
2009	178
2008	107

A variety of issues in delivering final reports continue to exist, including delays in receipts of auditee responses, coordinating the timing of quality processes between the Office's audit seniors, managers, and directors, staff turnover, and the complexity of audit issues. Management of the Office stated that there was significant management turnover in 2008 (directors retired, managers promoted to director, staff promotions to manager) that contributed to the increase in the days in 2009. It was noted in the prior period report that the average days was 125, 131, 120, and 96 for 2004, 2005, 2006, and 2007, respectively. The average days increased in 2008 and again in 2009, but decreased significantly in 2010 and 2011. The Office's goal for 2011 was 125 days, which was met according to our analysis.

We recommend that the Office continue to monitor the issues that affect the days between the end of fieldwork and report issuance so that they continue the trend of meeting their goals and reducing the days between the end of fieldwork and report issuance.

State Auditor's Response:

A variety of reasons affect the timing of audit report deliveries. In addition to the reasons noted above, there are deadlines for the annual Statewide Single Audit and the audit of the State of Missouri Comprehensive Annual Financial Report (CAFR), which may take priority over other reports. Also, we perform numerous functions unrelated to processing audit reports, and Governmental Auditing Standards require our audit staff to obtain an average of 40 hours of continuing professional education annually. Many of the issues we report are complex, some are contentious. The Office of the State Auditor has a thorough quality control process to ensure the audit reports released are accurate and of high quality. We will continue to monitor the average days between fieldwork completion and report delivery.

Fiscal Notes

The Office has 20 calendar days to prepare the fiscal notes for various ballot initiatives proposed by citizens of Missouri. In order to provide a balanced view of the issues, the Office will request feedback from various state agencies and local governments to determine the impact on their individual offices. Proponents and opponents to the initiatives are also allowed to provide insight into the effects of the initiatives. The Office compiles this information and reviews for reasonableness. Any information presented that the Office believes requires further explanation or discussion is included in an additional section of the fiscal notes. During our analysis, it was noted that the number of initiatives has increased significantly in the last few years. Management stated that the Office received 144 initiatives in the current cycle whereas there were typically less than 25 per year in prior years and have steadily increased the last few years.

While the Office has limited resources and time to prepare the fiscal notes, we recommend that the Office considers evaluating the information presented by other state agencies and proponents and opponents more thoroughly by requesting supporting documentation for calculations provided by those that contribute the information. We also recommend that a retrospective analysis be performed on fiscal estimates for initiative petitions to evaluate the reasonableness of these estimates. We understand this recommendation may be impractical given the existing process framework of 20 days to prepare fiscal notes and given resource constraints.

State Auditor's Response:

As noted in the comments above, we have 20 calendar days to prepare fiscal notes and the fiscal note summary for initiative petitions. We request input from various state agencies and local governments. Those entities need time to prepare comments and we usually do not receive a response from the entities until 5 days prior to the date the fiscal note and fiscal note summary are due. There are several court cases pending regarding the role of the Office of the State Auditor in the petition fiscal note process. We will continue to monitor the initiative petition fiscal note process and perform these duties in accordance with state law and directives of the court system.

Satellite Office Operating Efficiency

Analysis of the operating efficiency of the satellite offices began with selecting the following statistics to provide a benchmark in comparing the different offices: Average days between the end of fieldwork, average expenses per audit, average hours over budget and expenses divided by total staff hours. We obtained a job listing for all audits with ending fieldwork dates within the range of the audit period, sorted the listing by audit manager, and grouped the jobs into their respective offices according to the audit manager assignments. A particular office's job will frequently be staffed with personnel of other offices. We believe that the analysis below is, on average, representative of each office's average performance.

Office	Average Days for Four Year Period	Average Days - 2008	Average Days - 2009	Average Days - 2010	Average Days - 2011	Average Expenses per Audit	Expenses divided by total staff hours	Average Hours Over Budget per Audit
Jefferson City	130	104	166	145	118	5,312.73	8	183
Kansas City	231	243	291	188	188	3,132.73	6	153
St. Louis	118	79	187	107	87	2,196.07	5	45
Springfield	116	89	142	115	114	1,196.52	2	173

Average days for all offices for the four year period was calculated to be 135 days. In 2011, their goal was 125 days and all except one office achieved this goal. The Kansas City office works on smaller audits, which in turn require more manager time in comparison to the staff time on an audit and is the primary driver in the significant average days in comparison to the other offices.

Staffing and turnover contribute to these operating results by office. Staffing levels are relatively low in Jefferson City compared to the satellite offices, which results in satellite office staff being assigned to audits in Jefferson City (as opposed to Jefferson City staff assigned to satellite office work), increasing the average expenses per audit and expenses per staff hour. The type of audit work contributes to staffing needs, and subsequently shortfalls, in various offices. For example, Federal Stimulus money received and granted by the State during the audit period resulted in more single audit work for the Jefferson City office requiring more staff hours, and consequently, more staff from satellite offices, to cover Jefferson City office jobs.

We recommend the Office continues to monitor and benchmark satellite office statistics for the purpose of determining current and future staffing level needs in each office.

<u>*State Auditor's Response:*</u>

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

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

Peck & Associates, P.C.

June 28, 2012

St. Louis, Missouri

Certified Public Accountants