

The seal of the State Auditor of Missouri is circular and features a central figure holding a scale and a sword. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

# Nicole Galloway, CPA

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## Missouri State Auditor

State of Missouri  
Comprehensive Annual Financial Report  
Report on Internal Control, Compliance, and Other Matters  
Year Ended June 30, 2019

Report No. 2020-010

March 2020

[auditor.mo.gov](http://auditor.mo.gov)



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

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## Findings in the Comprehensive Annual Financial Report Report on Internal Control, Compliance, and Other Matters

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Department of Social Services Financial Reporting Controls	The Department of Social Services - Division of Finance and Administrative Services does not have adequate controls and procedures over financial reporting of federal grant accounts receivables. As a result, the accounts receivable data submitted to the Office of Administration - Division of Accounting for inclusion in the <i>Missouri Comprehensive Annual Financial Report</i> for the year ended June 30, 2019, was misstated.
Department of Natural Resources Capital Asset Controls	The Department of Natural Resources has not recently performed and documented complete annual physical inventories of state park capital assets.

Because of the nature of this audit, no rating is provided.

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# State of Missouri - Comprehensive Annual Financial Report

## Report on Internal Control, Compliance, and Other Matters

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# State of Missouri - Comprehensive Annual Financial Report

## Report on Internal Control, Compliance, and Other Matters

### Introduction

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#### **Summary of Financial Statement Audit Results**

We issued our audit report (Report No. 2020-001<sup>1</sup>) of the state's Comprehensive Annual Financial Report (CAFR), as of and for the year ended June 30, 2019, on January 9, 2020. The state's financial statements covered approximately \$44 billion in total assets and approximately \$28 billion in total expenses for state fiscal year 2019. Our report expressed qualified opinions on the governmental activities and the General Fund because we were not allowed access to tax returns and related source documents for income taxes. Our report expressed unmodified opinions on all remaining opinion units.

In connection with the audit, we tested internal controls and compliance with laws and regulations. The results of our tests are contained herein in our 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*. We reported two findings related to internal control deficiencies. These findings were at the Department of Social Services and the Department of Natural Resources. We consider these findings to be a material weakness and a significant deficiency. The state agencies' responses to the findings are included in this report. The agencies prepared a Corrective Action Plan (CAP) for each finding. The CAPs were submitted to the Office of Administration (OA) and will be included in the Corrective Action Plans section of the State of Missouri - Single Audit Report, to be issued in March 2020.

The state agencies prepared and submitted to the OA the status of the prior audit findings. They will be presented in the Summary Schedule of Prior Audit Findings section of the State of Missouri - Single Audit Report.

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<sup>1</sup> The CAFR is available online at: <<https://oa.mo.gov/accounting/reports/annual-reports/comprehensive-annual-financial-reports>>.



## **NICOLE GALLOWAY, CPA**

### **Missouri State Auditor**

#### 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

Honorable Michael L. Parson, Governor  
and  
Members of the General Assembly

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Missouri, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the state's basic financial statements, and have issued our report thereon dated January 9, 2020. Our report expressed qualified opinions on the governmental activities and the General Fund, a major fund, because we were not allowed access to tax returns and related source documents for income taxes. Approximately 29 percent of governmental activity revenues and 34 percent of General Fund revenues are from this source. We were unable to satisfy ourselves by appropriate audit procedures as to the income tax revenue beyond the amounts recorded. Our report expressed unmodified opinions on all remaining opinion units.

Our report on the state of Missouri's financial statements includes a reference to other auditors who audited the financial statements of:

1. The Missouri Road Fund, a major fund; the Missouri Road Bond Fund; the Transportation Self-Insurance Plan; the Missouri State Employees' Insurance Plan; the Missouri Consolidated Health Care Plan; and the Missouri Department of Transportation and Missouri State Highway Patrol Medical and Life Insurance Plan, which represent 76 percent of the assets and 11 percent of the revenues of the governmental activities.
2. The State Lottery and the Petroleum Storage Tank Insurance Fund, which are both major funds and represent 11 percent of the assets and 74 percent of the revenues of the business-type activities.
3. The aggregate discretely presented component units.
4. The pension (and other employee benefit) trust funds and the Missouri Department of Transportation agency funds, which represent 93 percent of the assets and 97 percent of the additions of the fiduciary funds.

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

The financial statements of the Missouri State Employees' Insurance Plan and the Missouri Consolidated Health Care Plan, internal service funds; the Missouri Development Finance Board, the Missouri Agricultural and Small Business Development Authority, and the State Environmental Improvement Energy Resources Authority, discretely presented component units; and the pension (and other employee benefit) trust funds were not audited in accordance with Government Auditing Standards.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the state of Missouri's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state's internal control. Accordingly, we do not express an opinion on the effectiveness of the state's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

*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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the state's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as finding number FS2019-001 to be a material weakness.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as finding number FS2019-002 to be a significant deficiency.

### **Compliance and Other Matters**

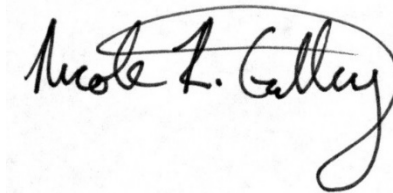
As part of obtaining reasonable assurance about whether the state of Missouri's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## State's Responses to the Findings

The state of Missouri's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The state's responses were not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Section 29.200, RSMo, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large loop at the end of the last name.

Nicole R. Galloway, CPA  
State Auditor

January 9, 2020

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# State of Missouri - Comprehensive Annual Financial Report

## Report on Internal Control, Compliance, and Other Matters

### Schedule of Findings

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**FS2019-001.**

#### **Department of Social Services Financial Reporting Controls**

The Department of Social Services (DSS) - Division of Finance and Administrative Services (DFAS) does not have adequate controls and procedures over financial reporting of federal grant accounts receivables. As a result, the accounts receivable data submitted to the Office of Administration - Division of Accounting (DOA) for inclusion in the *Missouri Comprehensive Annual Financial Report (CAFR)* for the year ended June 30, 2019, was misstated. If the misstatement had not been identified during the audit, deferred inflows of resources would have been overstated by approximately \$248 million and revenues would have been understated by approximately \$248 million in the CAFR financial statements.

To compile and submit accounts receivable data to the DOA, DFAS personnel analyze drawdown activities from federal cash drawdown reports. Of the net accounts receivables at June 30, the DFAS is to identify collections expected in July and August and collections expected after August. The DOA reports collections expected in July and August as revenues and collections expected after August as deferred inflows of resources. The Governmental Accounting Standards Board (GASB) *Codification*, Section 1600.106, states revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. The *Governmental Accounting, Auditing, and Financial Reporting*, Chapter 9, further states resources should be recognized as revenues when they are available, even if they were not actually collected during the availability period.

The DFAS has not established procedures to classify June 30 accounts receivable amounts as expected (available) in July and August (reported as revenues in the CAFR) versus after August (reported as deferred inflows in the CAFR). In September 2019, for the year ended June 30, 2019, the DFAS reported \$247.6 million in net accounts receivables, including \$0 collections expected in July and August and \$247.6 million collections expected after August. DFAS personnel could not provide documentation or an adequate explanation supporting the classification of these amounts. After our inquiries, in November 2019, DFAS personnel revised the report to show \$248.5 million net accounts receivables, including \$248.5 million collections expected in July and August and \$0 collections expected after August. The DOA made the correction to the CAFR prior to its completion and similarly restated year ended June 30, 2018 amounts.

It is essential the DFAS establish controls and procedures to prepare and submit accurate accounts receivable reports to the DOA. The *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States, states management is responsible for the design, implementation, and operating effectiveness of the internal control system and that control activities should be designed to achieve objectives and respond to risks. Such controls would allow management or employees, in





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the normal course of performing their assigned functions, to prevent or detect and correct misstatements.

## Recommendation

The DSS through the DFAS implement controls and procedures to prepare and submit accurate accounts receivable reports to the DOA.

## Auditee's Response

*The DSS provided the following written response:*

*The department does not agree with this finding. The department has internal controls and procedures in place to prepare and submit accurate accounts receivable reports to the DOA. In fact, the accounts receivable balance was correct as originally reported.*

*Although the department did revise the state fiscal year 2019 CAFR accounts receivable report after submission and upon discussion with the State Auditor's Office, the department's original position, in reporting the accounts receivables as received after August (or as a deferred inflow for reporting purposes) was a more conservative approach for the financial statements. Additionally, the DSS does view this as a difference of opinion in how this information is captured, as a revenue versus as a deferred inflow.*

*The department does and will continue to submit accurate accounts receivable reports to the DOA.*

## Auditor's Comment

CAFR reporting must be in accordance with GASB standards that state revenues are recognized in the accounting period in which they become measurable and available. Reporting of these amounts is not a matter of "opinion" or a "conservative approach." The department's claim that the original reporting of all \$247.6 million of accounts receivables as "expected after August" cannot possibly be correct because prior to the end of August 2019, the DSS drew down approximately \$165 million for grants with accounts receivables at June 30, 2019. Because the DSS lacks controls and procedures to identify and report accounts receivables in accordance with GASB requirements, this finding is valid.

### **FS2019-002.** **Department of** **Natural Resources** **Capital Asset Controls**

The Department of Natural Resources (DNR) has not recently performed and documented complete annual physical inventories of state park capital assets. Physical inventory procedures are required by DNR policy, state law, and state regulation, and help ensure the capital asset data submitted to the DOA for inclusion in the CAFR is accurate. For the year ended June 30, 2019, DNR capital assets totaled approximately \$147 million, or 74 percent of the total \$200 million Government Wide - Business Type Activities capital assets reported in the CAFR.

The DNR maintains capital asset records in the statewide accounting (SAM II) system. The DNR compiles and submits SAM II system capital asset data



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to the DOA for inclusion in the CAFR. To ensure proper control over capital assets and that records are accurate, DNR State Property Accountability (Fixed Assets) Policy Number 7.04 requires each program, office, or facility to conduct an annual physical inventory. The policy requires the divisions to ensure the physical inventories are conducted and inventory reports are submitted, and reconcile the asset records to the actual items in the division's possession. The DNR's internal control plan submitted to the DOA states a physical fixed asset inventory is completed annually. In addition, state regulation 15 CSR 40-2.031(9) requires each department to perform an annual physical inventory and reconcile the inventory with SAM II system records and the prior annual physical inventory. Also, Section 34.125, RSMo, requires each department to keep a current inventory of all its property.

DNR procedures provide that central office personnel prepare and distribute a SAM II system report of capital assets to each state park. State park officials are to perform a physical inventory, document any discrepancies with the SAM II system report, and submit physical inventory documentation to the DNR central office. Central office personnel are responsible for reviewing the physical inventories and updating SAM II system records with any needed changes.

Our review of physical inventory records and procedures determined the DNR had not performed a complete department-wide physical inventory for fiscal years 2017, 2018, or 2019. DNR officials could not determine when department personnel had performed the last complete physical inventory. Department records show the most recent physical inventory process was started in calendar year 2018, but it was not finalized as of November 21, 2019. The 2018 summary inventory tracking sheet maintained by the central office showed personnel from several state parks had not completed and submitted their physical inventory, and central office personnel had not monitored to ensure inventories had been performed and submitted for all state parks. In addition, inventory documentation submitted for two of five state parks selected for review was incomplete. The records lacked documentation showing that the assets were physically verified, who performed the inventory, and the date the inventory was performed. Capital assets reported for these two parks totaled approximately \$14 million. DNR officials stated inadequate staffing levels resulted in the department's inability to perform annual physical inventories.

It is essential the DNR follow established policies and procedures and comply with state laws and regulations regarding capital assets. The failure to perform physical inventory procedures reduces the control and accountability over capital assets and increases the potential that loss, theft, or misuse will go undetected. In addition, without effective controls over capital asset management and reporting, the DNR cannot ensure the accuracy of the capital



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asset balances in the SAM II system and the information reported in the CAFR.

## Recommendation

The DNR ensure complete physical inventories of capital assets are performed annually, documented, and reconciled to the SAM II system.

## Auditee's Response

*The DNR provided the following written response:*

*We partially agree with the State Auditor's Office's (SAO) finding, as detailed below.*

*The department agrees that inventory documentation for calendar year (CY) 2018 was incomplete for two of the five state parks for which the SAO reviewed documentation; this resulted from an internal control weakness in the department's physical inventory process that we have since addressed. Upon the SAO's request for documentation, the department elected to review all 135 physical inventory units across the department for CY 2018 even though the SAO review was focused only on those relating to Business Type Activities. Of the 135 inventory units, 124 were properly completed or not required, five were completed late, and six could not be confirmed as complete (including the two identified by the SAO).*

*The department disagrees with the characterizations presented in the SAO's draft finding and conclusions. The department also disagrees with the SAO's conclusion that this internal control weakness rises to the level of a finding for purposes of the Statewide Financial Statement Audit. The impact of this matter is not material because it constitutes far less than 1% of statewide assets. The SAO notes in its draft finding that "[f]or the year ended June 30, 2019, DNR capital assets totaled approximately \$147 million, or 74 percent of the total \$199 million Government Wide – Business Type Activities capital assets reported in the CAFR." This statement, while correct, requires additional context. For fiscal year (FY) 2019, DNR capital assets for all Activities (Business Type plus Government Type) totaled approximately \$461 million, or 0.74% of the statewide total of \$62 billion.*

*Despite our objections to the SAO's characterization of this matter and decision to issue a finding, the department agrees with the SAO's draft recommendation to "ensure complete physical inventories of capital assets are performed annually and reconciled to the SAM II system." We have revised our internal controls to ensure inventories are completed and reconciled annually, implemented the pieces of those controls that could occur before finalizing the audit, and are on track to complete the remaining pieces this fiscal year. Our specific action steps include the following:*



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- *As part of our revised process, the department is converting its inventory schedule from a CY system to a FY system; this change should make CAFR reporting easier and more straightforward.*
- *The department has implemented procedures to record the specific completion date for each physical inventory to ensure we have the documentation necessary to demonstrate we are completing inventories annually.*
- *All physical inventories for CY 2019 were completed by December 31, 2019, and the status of all capital assets recorded. We are working now to complete reconciliation of the CY information with FY 2020 information, which will bring our CY and FY data together moving forward. We anticipate that process will be complete at the close of the fiscal year.*

*The department does not propose any corrective action beyond the actions described in this response.*

## Auditor's Comment

Our decision regarding the classification of the internal control deficiency reported in this finding was made in accordance with AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*. AU-C Section 265.07 provides the following definitions regarding internal control deficiencies: 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 and correct, misstatements on a timely basis. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable. *Reasonably possible* is the chance of the future event or events occurring that is more than remote but less than likely. *Probable* means the future event or events are likely to occur. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

We classified this internal control deficiency as a significant deficiency for the following reasons outlined in the finding (1) the DNR failed to ensure the department's key internal control to account for existing capital assets was placed into operation, (2) the internal control covers approximately 74 percent of the Government Wide - Business Type Activities opinion unit, and (3) the internal control is required by law. Also, as indicated in the finding, the DNR could not provide complete physical inventory documentation for any recent



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calendar year and DNR officials could not determine when the last complete physical inventory was performed.

The DNR asserts this internal control deficiency should not be reported as a finding because DNR capital assets are not material to the state's CAFR as a whole. However, as communicated to DNR officials in meetings held on December 23, 2019 and January 3, 2020, audit standards require separate audit opinions on each opinion unit, including the Government Wide - Business Type Activities opinion unit, for which the DNR holds approximately 74 percent of the total capital assets. The DNR's attempt to compare its assets to the CAFR as a whole falsely minimizes the impact of this internal control deficiency on the state's CAFR.

The DNR also attempts to minimize the issue by stating the department's follow up on pending calendar year 2018 physical inventories determined most were complete. However, these procedures were conducted only after our inquiries. Paragraph 3.35 of the *Audit Guide Government Auditing Standards and Single Audits*, published by the AICPA, states while audit testing results should be considered when evaluating the operating effectiveness of internal controls, the absence of misstatements detected by audit procedures does not provide audit evidence that controls related to the relevant assertion being tested are effective.