



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

March 1, 2005

Limited Internal Control and Compliance Review Management Report

George Dale, Commissioner
Mississippi Insurance Department
P. O. Box 79
Jackson, Mississippi 39205-0079

Dear Commissioner Dale:

Enclosed for your review are the limited internal control and compliance review findings for the Mississippi Insurance Department for the Fiscal Year 2004. In these findings, the Auditor's Office recommends the Mississippi Insurance Department:

1. Strengthen controls over bank accounts;
2. Strengthen controls over procurement card purchases; and
3. Maintain adequate surety bond coverage.

Please review the recommendations and submit a plan to implement them by March 23, 2005. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management and Members of the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi Insurance Department to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Insurance Department throughout the review. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi Insurance Department for the year ended June 30, 2004. The Office of the State Auditor's staff members participating in this engagement included Rob Robertson, Laura Griffin, Tangela Beddingfield, Trisi Baskin, and Kim McCrory.

The fieldwork for review procedures and tests was completed on February 18, 2005. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

In performing our review, we noted matters involving the internal control over financial reporting and an instance of noncompliance that requires the attention of management. These matters are noted under the headings **IMMATERIAL WEAKNESSES IN INTERNAL CONTROLS** and **INSTANCE OF NONCOMPLIANCE WITH STATE LAW**.

IMMATERIAL WEAKNESSES IN INTERNAL CONTROLS

Controls over Bank Accounts Should Be Strengthened

Finding:

Testwork performed on bank reconciliations at the Mississippi Insurance Department revealed there was no indication of supervisory review on the bank reconciliations for nine out of forty-eight reconciliations tested. We noted four instances in which a reconciliation was not performed. We also noted instances in which reconciling items remained on the statements for extended periods without appropriate follow-up by agency personnel.

Good internal controls dictate that a supervisory review be performed to ensure bank reconciliations are completed accurately and in a timely manner. Also, reconciling items which remain on the statements for several months should be researched for appropriate disposition by agency personnel. Failure to consistently apply adequate internal controls could allow fraud or errors to occur without being detected promptly.

Recommendation:

We recommend the Mississippi Insurance Department strengthen controls over bank accounts by ensuring bank account reconciliations are performed and supervisory review is documented by initialing/dating the reconciliation. We also recommend agency personnel investigate and resolve reconciling items noted during preparation of the bank reconciliation within a reasonable time.

Controls over Procurement Card Purchases Should Be Strengthened

Finding:

Testwork performed at the Mississippi Insurance Department revealed three of 15 purchases tested, or 20 percent, in which procurement card purchases lacked evidence of an independent review of charges by an approving official. We also noted eight out of the 15 purchases tested, or 53 percent, were made by the approving official without an independent review. Good internal controls dictate procurement credit card purchases be independently reviewed by an approving official. Failure to maintain adequate internal controls could allow unauthorized purchases to occur without being detected in a timely manner.

Recommendation:

We recommend the Mississippi Insurance Department strengthen internal controls to ensure all procurement credit card purchases are reviewed and approved by a person independent of the initial purchase.

INSTANCE OF NONCOMPLIANCE WITH STATE LAW

Agency Should Maintain Adequate Surety Bond Coverage

Finding:

Section 83-1-7, Miss. Code Ann. (1972), requires the Deputy Insurance Commissioner to furnish a surety bond in the sum of \$10,000. Surety bond testwork performed at the Mississippi Insurance Department revealed the agency failed to properly renew surety bond coverage for the Deputy Insurance Commissioner. Failure to maintain proper surety bond coverage could result in the agency's suffering unrecoverable losses.

Recommendation:

We recommend the Mississippi Insurance Department ensure proper surety bond coverage is maintained as required by state law.