



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
STATE AUDITOR

March 22, 2016

Financial Audit Management Report

Honorable Lynn Fitch, State Treasurer
Office of the State Treasurer
P. O. Box 138
Jackson, MS 39205

Dear Ms. Fitch:

Enclosed for your review are the financial audit findings for the Office of the State Treasurer for the Fiscal Year 2015. In these findings, the Auditor's Office recommends the Office of the State Treasurer:

1. Submit the audit report for the Mississippi Prepaid Affordable College Tuition funds in a timely manner;
2. Strengthen controls over daily cash reconciliations of statewide receipts; and
3. Strengthen controls over arbitrage calculations.

Please review the recommendations and submit a plan to implement them by March 31, 2016. 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.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Office of the State Treasurer'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 Office of the State Treasurer's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

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

Sincerely,

Sallie Dier, CPA
Director, Financial and Compliance Audit Division
Enclosures

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Office of the State Treasurer for the year ended June 30, 2015. These financial statements will be consolidated into the State of Mississippi's *Comprehensive Annual Financial Report*. 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. The Office of the State Auditor's staff members participating in this engagement included Amy Buller, CPA, Jason Ashley, Karlanne Coates, CPA, Sallie Dier, CPA, Kortney Gaddy, Kelly Holtsinger, Jeanne Julious, Stephanie Palmertree, CPA, and Elaina Jo Smith.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. 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.

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Office of the State Treasurer'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 opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Treasurer's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, identified in this letter as item 2015-014, which we consider to be a significant deficiency.

In addition, we noted certain control deficiencies involving internal control that require the attention of management. These matters are listed under the heading **OTHER CONTROL DEFICIENCIES** as items 15-01 and 15-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Office of the State Treasurer 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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SIGNIFICANT DEFICIENCY

Finding Number

2015-014

Finding and Recommendation

Audit Report for the Mississippi Prepaid Affordable College Tuition Funds Should Be Submitted in a Timely Manner

Finding:

Due to the implementation of a new statewide accounting system - Mississippi Accountability System for Government Information and Collaboration (MAGIC), policies and procedures for the preparation and submission of agency fund level GAAP packets were revised in order to complement the new statewide accounting system. Agency accounting personnel were tasked with completing close out GAAP packets using new reports, policies, and procedures. In order to mitigate problems faced statewide, extended deadlines and procedures were temporarily utilized during fiscal year 2015 in order to assist agencies with completing GAAP packets.

During our review of the financial reporting process at the Office of the State Treasurer, we noted the CPA audit report for the Mississippi Prepaid Affordable College Tuition (MPACT) fund financial statements was not submitted in a timely manner to the Office of the State Auditor. The deadline for submission of the audit report was November, 30, 2015; however, the audit report was not submitted until March 1, 2016. This delay was caused, in part, by failure of agency personnel to timely submit plan information to the actuary which was needed in order to prepare the audit report.

Section 27-104-4, Miss. Code Ann. (1972) requires each state agency to prepare annual financial statements at such times as determined by the State Fiscal Officer. The State Fiscal Officer is required to combine the financial statements into a comprehensive annual financial report (CAFR) and provide it to the State Auditor for postauditing. The law further requires the CAFR be published within six months after the June 30 close of the fiscal year. In addition, the Government Finance Officers Association (GFOA) requires CAFRs to be submitted within six months of the government's fiscal year end. It should be noted that Department of Finance and Administration – Office of Financial Reporting obtained an extension for the CAFR from GFOA this year due to the implementation of MAGIC.

The failure of agency personnel to ensure audit reports were submitted in a timely manner contributed to the CAFR not being published in accordance with state law and hindered the efficiency of the audit of the State of Mississippi's

financial statements. In addition, these delays could result in the state not being awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA. Receiving GFOA's certificate increases the likelihood the credit agencies or other stakeholders may consider the state's financial statements in a positive manner. The timeliness of the CAFR being published impacts its relevance to the various users of the CAFR.

In addition, the Single Audit Act requires the State to issue the Single Audit Report within nine months of fiscal year end, and no extensions are granted. The independent auditor's report on internal control over financial reporting and the schedule of expenditures of federal awards (SEFA) are both required to be included in the Single Audit Report, and both are an integral part of the financial audit of the State. The failure to timely complete the CAFR could also hinder the timely submission of the Single Audit Report which could result in the suspension of discretionary federal drawdowns.

Recommendation:

We recommend the Office of the State Treasurer implement procedures to ensure the timely submission of the CPA audit report for the Mississippi Prepaid Affordable College Tuition fund financial statements in order to help ensure the State of Mississippi Comprehensive Annual Financial Report and Single Audit Report are both published in accordance with state and federal law. We further recommend that agency personnel submit plan information to the actuary in a timely manner in order to help prevent delays from occurring in the issuance of the audit report.

OTHER CONTROL DEFICIENCIES

Finding Number

Finding and Recommendation

15-01

Controls Should Be Strengthened over Daily Cash Reconciliations of Statewide Receipts

Finding:

Good internal controls require adequate preparation, review, and documentation of the reconciliation between cash receipts posted in the state's accounting system and actual cash receipts.

During our testwork on controls over daily cash reconciliations of statewide receipts at the Office of the State Treasurer, we noted eleven instances out of 64 test items, or 17 percent, in which there was not adequate documentation to support whether agency personnel agreed the Cash - Direct Postings daily report total generated from MAGIC to the daily transmittal sheet for deposits received from the Department of Finance and Administration (DFA). Agency procedures include reconciling cash balances reported in MAGIC to the deposits reported by DFA on the daily transmittal sheet to ensure that any differences can be reconciled. Good internal controls require that these reviews be properly documented in order that a sufficient audit trail is maintained.

Recommendation:

We recommend the Office of the State Treasurer strengthen controls over the daily cash reconciliations of statewide receipts. Evidence of reviews performed should be documented by agency personnel and maintained on file for internal monitoring and audit purposes.

Finding Number

15-02

Finding and Recommendation

Controls Should Be Strengthened over Arbitrage Calculations

Finding:

Per Internal Revenue Service (IRS) guidance on the instructions for form 8038-T (arbitrage rebates), issuers must pay arbitrage rebates in installments for computation dates that occur at least once every five years. Rebate payments are due within 60 days after each computation date. The final rebate payment for an issue is due within 60 days after the issue is discharged.

During testwork performed on arbitrage calculations at the Office of the State Treasurer, it was noted that the agency had not prepared a calculation for two bond issues within the timeframe specified by the IRS. The agency did send information to a third party to prepare the calculation for the bond issues; however one calculation was received 17 days late and one calculation was received almost seven months late. While, it should be noted that the calculations revealed there was no arbitrage payment due, failure to ensure arbitrage calculations are prepared and rebates submitted within the timeframe specified by the IRS could result penalties being charged and/or loss of tax exempt status for the bond issue.

Recommendation:

We recommend the Office of the State Treasurer strengthen controls to ensure all bonds are monitored for the timing of arbitrage calculations and rebate submissions, and that those calculations and rebate submissions occur timely, in accordance with the Internal Revenue Service regulations.

End of Report



OFFICE OF THE STATE TREASURER
LYNN FITCH
TREASURER

FINANCIAL AUDIT FINDINGS

March 31, 2016

The Honorable Stacey E. Pickering, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, Mississippi 39205

Dear Mr. Pickering:

In accordance with your correspondence dated March 22, 2016, the Office of the State Treasurer (OST) is providing the following response for the financial audit finding for the fiscal year ending June 30, 2015.

AUDIT FINDINGS:

Audit Finding Heading:

**2015-014 Audit Report for the Mississippi Prepaid Affordable
College Tuition Funds Should Be Submitted in a Timely Manner**

Response:

WE DO NOT CONCUR WITH THE AUDIT FINDING.

The data necessary for OST to complete our audit report was not made available to OST by the Mississippi Department of Finance and Administration (DFA) until late October 2015. By way of comparison, as you will recall, that same necessary information was made available to OST in early July 2014 for our preparation of the audit report for fiscal year 2014. *This three and a half month delay in the availability of reliable financial information from DFA made completion of our report by any earlier date impossible.*

Based on when the financial information was available in the Mississippi Accountability System for Government Information and Collaboration (MAGIC) for GAAP and audit reporting purposes, however, we contend that OST did turn around the MPACT audit report in a timely manner.

Preliminary GAAP trial balances for proprietary fund types were not developed in the MAGIC system and available for use by agency personnel in compiling the GAAP packages until late October 2015 for the fiscal year 2015 audit. The implementation and ongoing development of MAGIC is a responsibility of DFA, and therefore is outside of the control of OST with regard to the timeliness of necessary financial information.

Furthermore, the DFA Executive Director, as well as DFA executive staff, had full knowledge and awareness that failures in the implementation of MAGIC would result in DFA not being able to properly provide reliable reports in a timely manner to OST. In fact, prior to the go-live date of MAGIC, OST executive staff, as well as myself, alerted the Governor's Office, Lieutenant Governor's Office, and Speaker of the House of the potential impending delays of the Comprehensive Annual Financial Report (CAFR) based on the failures in implementation of MAGIC.

As of the date of this response, it should be noted that the CAFR has not been issued and the Office of the State Auditor is still awaiting information from DFA.

During fiscal year 2015, enrollment in the MPACT program was re-opened and included a new plan type for new participants, all in accordance with plans by College Savings Mississippi (CSM) to make MPACT a better savings tool for Mississippi families and cost-neutral to Mississippi taxpayers. Because of these critical changes, however, the actuary needed additional financial information to value the two plans, Legacy and Horizon, separately. OST gathered this additional financial information within a reasonable timeframe based on the initial year of the operation of these two separate plans. Furthermore, the MPACT actuary and independent CPA firm worked diligently with OST to ensure that the actuary report and independent audit report were completed and provided to the CSM Board of Directors for approval in an expedited manner, at my request.

Under the circumstances, we strongly assert that the delay in OST's submission of the MPACT audit report:

- (1) is not a failure of the Office of State Treasurer personnel,
- (2) did not hinder the efficiency of the State Auditor's audit, and
- (3) is not the reason the CAFR has not been published timely in accordance with state law.

Any delays are a direct result of the failure of DFA to timely implement and develop accurate and complete financial reports in MAGIC for GAAP and audit purposes.

Corrective Action:

No corrective action is deemed necessary by the Office of the State Treasurer.

Sincerely,

Lynn Fitch
State Treasurer

cc: Mr. Kevin Upchurch, Executive Director, DFA



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

Auditor's note to the Response from Management

TREASURY

SIGNIFICANT DEFICIENCY

Finding Number

Finding Heading

2014-014

**Audit Report for the Mississippi Prepaid Affordable College Tuition Funds
Should be Submitted in a Timely Manner**

Rebuttal to Agency Response:

We have reviewed the comments made by the agency in response to the above noted finding. The comments do not provide adequate justification for the delay in providing information to the plan actuary. Trial balance information was readily available to OST in October 2015; however, plan information was not submitted to the actuary until February 2016. The Office of the State Auditor respectfully disagrees with OST and contends that the delay in reporting plan information to the actuary, thereby delaying the preparation of the CPA audit report for MPACT, directly contributed to the untimely filing of the State's Consolidated Annual Financial Report.

We also wish to place emphasis on finding number **2015-030** in which weaknesses regarding the filing of the Consolidated Annual Financial Report are addressed and Corrective Action Plans were submitted by the Department of Finance and Administration.



OFFICE OF THE STATE TREASURER
LYNN FITCH
TREASURER

OTHER AUDIT FINDINGS

March 31, 2016

The Honorable Stacey E. Pickering, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, Mississippi 39205

Dear Mr. Pickering:

In accordance with your correspondence dated March 22, 2016, the Office of the State Treasurer (OST) is providing the following responses and corrective action plans for the other audit findings for the fiscal year ending June 30, 2015.

AUDIT FINDINGS:

Audit Finding Heading: **Controls Should Be Strengthened over Daily Cash Reconciliations of Statewide Receipts**

Response: We concur with this audit finding.

Corrective Action: The Office of the State Treasurer will strengthen controls over the daily cash reconciliations of statewide receipts to ensure the evidence of reviews performed are documented and maintained on file for internal monitoring and audit purposes.

Contact Person: Yolanda Campbell

Anticipated completion
date of corrective action: March 1, 2016

Audit Finding Heading:

Controls Should Be Strengthened over Arbitrage Calculations

Response:

We concur with this audit finding; however, we would like to emphasize that *no arbitrage payments or interest penalties were due on any late filings.*

Corrective Action:

The Bond Division will strengthen controls to ensure all bonds are monitored for the timing of arbitrage calculations and rebate submissions, and that those calculations and rebate submissions occur timely, in accordance with the Internal Revenue Service regulations. We are currently developing a centralized database with the State's arbitrage consultant to ensure better efficiency, maintenance, and reporting for all bond issues requiring arbitrage rebate calculations.

Contact Person:

Ricky Manning

Anticipated completion
date for corrective action:

June 30, 2016

Sincerely,

Lynn Fitch
State Treasurer