



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

May 2, 2016

Honorable Phil Bryant, Governor  
State of Mississippi  
P.O. Box 139  
Jackson, Mississippi 39205

Mr. Kevin J. Upchurch, Executive Director  
Department of Finance and Administration  
501 North West Street  
Suite 1301, Woolfolk Building  
Jackson, Mississippi 39201

Gentlemen,

The Office of the State Auditor has recently completed the *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* for the year ended June 30, 2015. This report, which provides information on controls and compliance by the state agencies as reported in the State of Mississippi's *Comprehensive Annual Financial Report*, contains information on material weaknesses, significant deficiencies and instances of noncompliance which were considered to be material to the State of Mississippi. This report also includes appropriate recommendations for correction of these findings, as well as the agency's responses to the findings and the intended corrective actions.

Copies of this report will be available through the State Auditor's Office web site on the Internet at <http://www.osa.state.ms.us>. Should you have any questions, please feel free to contact Stephanie Palmertree, CPA, CGMA, at (601) 576-2606.

Sincerely,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering". The signature is fluid and stylized, with a large, sweeping flourish at the end.

Stacey E. Pickering  
State Auditor

enclosures

# State of Mississippi

**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***

for the Fiscal Year Ended June 30, 2015

MISSISSIPPI



**Stacey E. Pickering**

State Auditor

(This page left blank intentionally.)

# INDEX

<b>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 <i>Government Auditing Standards</i> .....</b>	<b>1</b>
<b>Schedule of Findings and Questioned Costs</b>	
<b>Part 1 – Summary of Auditor's Results</b>	
Summary of Auditor's Results .....	5
<b>Part 2 – Financial Statement Findings</b>	
<b>Corrections</b>	
Finding 2015-020 .....	7
<b>Education</b>	
Finding 2015- 021 .....	9
<b>Finance &amp; Administration</b>	
Finding 2015-027 .....	12
Finding 2015-028 .....	13
Finding 2015-029 .....	14
Finding 2015-030 .....	15
Finding 2015-031 .....	17
Finding 2015-032 .....	17
<b>Marine Resources</b>	
Finding 2015-033 .....	20
<b>Public Safety</b>	
Finding 2015-035 .....	22
<b>Revenue</b>	
Finding 2015-016 .....	24
Finding 2015-017 .....	25
Finding 2015-018 .....	26
Finding 2015-019 .....	27
<b>Transportation</b>	
Finding 2015-015 .....	30
<b>Development Authority</b>	
Finding 2015-013 .....	33
<b>Treasury</b>	
Finding 2015-014 .....	35
<b>Wildlife, Fisheries &amp; Parks</b>	
Finding 2015-036 .....	38

**Part 3 - Management Responses**

<b>Corrections .....</b>	<b>41</b>
<b>Education .....</b>	<b>43</b>
<b>Finance &amp; Administration .....</b>	<b>46</b>
<b>Marine Resources .....</b>	<b>52</b>
<b>Public Safety .....</b>	<b>54</b>
<b>Revenue .....</b>	<b>56</b>
<b>Transportation .....</b>	<b>61</b>
<b>Wildlife, Fisheries &amp; Parks .....</b>	<b>67</b>
<b>Development Authority .....</b>	<b>69</b>
<b>Treasury .....</b>	<b>72</b>
<b>Auditor's note to Treasury Response .....</b>	<b>75</b>





(This page left blank intentionally.)



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

The Governor, Members of the Legislature  
and Citizens of the State of Mississippi

We have audited, in accordance with the 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 Mississippi (the State), as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the State's basic financial statements, and have issued our report thereon dated April 22, 2016. Our report includes a reference to other auditors who audited the financial statements of the following, as described in our report on the State of Mississippi's financial statements:

# Government-wide Financial Statements

! Governmental Activities

- the Department of Environmental Quality Clean Water State Revolving Loan Fund, the Department of Health Local Governments and Rural Water Systems Improvements Revolving Loan Fund, the Mississippi Authority for Educational Television, the State Agencies Self-Insured Workers' Compensation Trust Fund, the Department of Marine Resources, and selected funds at the Department of Corrections, the Department of Employment Security, the Department of Environmental Quality, the Department of Finance and Administration – Office of Insurance, the Department of Information Technology Services, the Office of the Governor - Division of Medicaid, the Military Department, the Mississippi Development Authority, the Mississippi Emergency Management Agency, the Department of Public Safety, the Department of Rehabilitation Services and the Department of Wildlife, Fisheries and Parks which, in the aggregate, represent 9% and 45%, respectively, of the assets and revenues of the governmental activities;

! Business-type Activities

- AbilityWorks, Inc. within the Department of Rehabilitation Services, the Port Authority at Gulfport, the Mississippi Prepaid Affordable College Tuition Program, the Veterans'

Home Purchase Board and the Unemployment Compensation Fund which, in the aggregate, represent 96% and 89%, respectively, of the assets and revenues of the business-type activities;

! Component Units

- the Universities and the nonmajor component units.

# Fund Financial Statements

! Governmental Funds

- the Department of Environmental Quality Clean Water State Revolving Loan Fund, the Department of Health Local Governments and Rural Water Systems Improvements Revolving Loan Fund, the Mississippi Authority for Educational Television, the Department of Marine Resources and selected funds at the Department of Corrections, the Department of Employment Security, the Department of Environmental Quality, the Department of Information Technology Services, the Office of the Governor - Division of Medicaid, the Military Department, the Mississippi Development Authority, the Mississippi Emergency Management Agency, the Department of Public Safety, the Department of Rehabilitation Services and the Department of Wildlife, Fisheries and Parks which, in the aggregate, represent 26% and 41%, respectively, of the assets and revenues of the General Fund;

! Proprietary Funds

- the Port Authority at Gulfport, the Mississippi Prepaid Affordable College Tuition Program and the Unemployment Compensation Fund which are considered major enterprise funds;

! Aggregate Remaining Funds

- the State Agencies Self-Insured Workers' Compensation Trust Fund and selected funds at Department of Information Technology Services and the Department of Finance and Administration – Office of Insurance within the Internal Service Fund;
- nonmajor enterprise funds for AbilityWorks, Inc. within the Department of Rehabilitation Services and the Veterans' Home Purchase Board;
- the Pension Trust Funds;
- the Private-Purpose Trust Funds of the Mississippi Affordable College Savings Program;

all of which represent 97% and 97%, respectively, of the assets and revenues of the Aggregate Remaining Funds.

Except for the major component unit Universities, this report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. This report does not include the results of the

other auditor's testing of internal control over financial reporting and compliance and other matters for the major component unit Universities that are reported on separately by those auditors.

The financial statements of the Mississippi State University Foundation, Inc., the University of Mississippi Foundation, the University of Southern Mississippi Foundation, the University of Mississippi Medical Center Educational Building Corporation, the University of Mississippi Educational Building Corporation, the University of Mississippi Medical Center Tort Claims Fund, the State Institutions of Higher Learning Self-Insured Workers' Compensation Fund, and the State Institutions of Higher Learning Tort Liability Fund, which were audited by other auditors upon whose reports we are relying, were not audited in accordance with *Government Auditing Standards*, and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these funds or entities.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we and other auditors considered the State of Mississippi'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 of Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Mississippi's internal control.

Our and the other auditors' 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 were not identified. However, as described in the accompanying "Schedule of Findings and Questioned Costs: Part 2 – Financial Statement Findings", we and other auditors identified certain deficiencies in internal control that we consider to be material weaknesses and significant 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 *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. We consider the deficiency described in the accompanying "Schedule of Findings and Questioned Costs: Part 2 – Financial Statement Findings" as items 2015-015, 2015-021, 2015-027, 2015-028, 2015-029, 2015-030, 2015-031, 2015-033, 2015-035, and 2015-036 to be material weaknesses.

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 and Questioned Costs: Part 2 – Financial Statement Findings" as items 2015-013, 2015-014, 2015-016, 2015-017, 2015-018, 2015-019, and 2015-032 to be significant deficiencies.

We and the other auditors also noted certain matters involving the internal control over financial reporting, which we have reported to management of the applicable state agencies and institutions of the State of Mississippi in separate communications.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Mississippi's financial statements are free from material misstatement, we and other auditors 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying "Schedule of Findings and Questioned Costs: Part 2 – Financial Statement Findings" as item 2015-020.

We and the other auditors also noted certain matters which we have reported to management of the State of Mississippi in separate communications.

#### **Management's Response to Finding**

Management's response to the finding identified in our audit is described in the accompanying "Management's Response and Corrective Action Plan" section. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### **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 result of that testing, and not to provide an opinion on the effectiveness of the State of Mississippi'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, this report is a matter of public record and its distribution is not limited.



**SALLIE DIER, CPA**  
Director, Financial and Compliance  
Audit Division

Jackson, Mississippi  
April 22, 2016

**Schedule of Findings and Questioned Costs:  
Part 1  
Summary of Auditor's Results**



(This page left blank intentionally.)

STATE OF MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015

---

PART 1 – SUMMARY OF AUDITOR’S RESULTS

*Financial Statements*

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?                      X   yes                         no
  
- Significant deficiencies identified?                      X   yes                         none reported

Noncompliance material to financial  
statements noted?

  X   yes      no

(This page left blank intentionally.)

**Schedule of Findings and Questioned Costs:  
Part 2  
Financial Statement Findings**



(This page left blank intentionally.)

STATE OF MISSISSIPPI

---

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015

---

PART 2 – FINANCIAL STATEMENT FINDINGS

<u>Finding Number</u>	<u>Finding and Recommendation</u>
<b><u>DEPARTMENT OF CORRECTIONS</u></b>	
<i>Significant Deficiency</i>	
2015-020	<p><u>Management is responsible for compliance with provisions of laws, regulations, contracts and grant agreements and preventing abuse</u></p> <p><i>Finding:</i></p> <p>The former Commissioner of MDOC resigned after a 49 count indictment, alleging the Commissioner was the recipient of bribes and kickbacks in exchange for favorable treatment in the awarding of MDOC contracts, was returned by a federal grand jury. The former Commissioner plead guilty to corruption charges in February 2015.</p> <p>Potential noncompliance with laws, regulations and abuse has occurred.</p> <p>Alleged misuse of an official's position has occurred for personal gain. An investigation is ongoing, and the potential cause will be determined at its conclusion.</p> <p><i>Recommendation:</i></p> <p>We recommend management should continue to comply with the Governor's directive to review contracts and rebid where appropriate. Also, we recommend management continue to evaluate MDOC's controls surrounding the procurement process to deter future potential issues.</p> <p><b>NOTE:</b> See Management's Response and Corrective Action Plan on page 41.</p>

(This page left blank intentionally.)

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

DEPARTMENT OF EDUCATION

*Material Weakness*

2015-021      GAAP Packet Review Should be Comprehensive and GAAP Packets Should be Completed in a Timely Manner

*Finding:*

Due to the implementation of a new statewide accounting system - Mississippi Accountability System for Government Information and Collaboration, or 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 Mississippi Department of Education, we noted agency personnel did not prepare their GAAP packet for treasury fund 5320100000, which includes a schedule of expenditures of federal awards (SEFA), in a timely manner. The deadline for turning in GAAP packets established by the Department of Finance and Administration – Office of Financial Reporting (DFA-OFR) was November 3, 2015. However, the final version of the GAAP packet was not submitted until December 16, 2015.

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 DFA-OFR obtained an extension for the CAFR from GFOA this year due to the implementation of the Mississippi Accountability System for Government Information and Collaboration, or MAGIC, the new accounting system used by the State.

The failure of agency personnel to prepare their GAAP packet for treasury fund 5320100000 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

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART 2 – Financial Statement Findings (continued)**

---

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 issue the Single Audit Report within nine months of the fiscal year end, and no extensions are granted. The independent auditor's report on internal control over financial reporting and the 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 federal discretionary drawdowns being suspended.

Historically, MDE prepared journal entries and submitted information regarding their annual expenditure accrual in preparation of their GAAP packet.. Due to the implementation of MAGIC, Department of Finance and Administration (DFA) prepared the annual entry to accrue payables for expenditures that occurred before fiscal year end at June 30, 2015 but were not billed until the next fiscal year. This accrual entry was prepared by DFA, but ultimately reviewed and approved by MDE personnel. During our review of the Fund 5320100000 GAAP Packet at MDE, we noted that the initial accrual entry was understated by \$40,368,389, resulting in revision to the original journal entries and GAAP Packet reporting. This revision was the result of transactions recorded in the subsequent accounting period and was not identified by MDE during the initial review of the Fund 5320100000 GAAP Packet.

Generally accepted accounting principles require accounting transactions to be recorded in the appropriate accounting period to ensure completeness and accuracy of the financial statements. The failure to properly record expenditure transactions in the correct period could lead to material misstatements in the financial statements.

*Recommendation:*

We recommend the Mississippi Department of Education implement procedures to ensure a comprehensive review and timely completion of their GAAP packets in order to help ensure the CAFR and Single Audit Report are accurate and published in accordance with state and federal law.

**NOTE:** See Management's Response and Corrective Action Plan on page 43

(This page left blank intentionally.)

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

**DEPARTMENT OF FINANCE AND ADMINISTRATION**

***Material Weakness***

2015-027

**Controls Should Be Strengthened Over the Security Audit Log of Mississippi's Accountability System for Government Information and Collaboration**

***Finding:***

Mississippi's Accountability System for Government Information and Collaboration (MAGIC) serves as the centralized statewide accounting system. State agencies utilize MAGIC on a daily basis as the State's general ledger necessary to prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles.

Good internal controls dictate that all transactions and other significant events be clearly documented and readily available for examination. This audit trail, or security audit log, documentation should include evidence on how transactions are initiated, processed, recorded and summarized. Additionally, proper audit trail documentation also includes evidence of transactions that may have been voided, deleted, or changed after approval and initiation.

Inherent in the MAGIC system is a security audit log. This log records the following:

- Successful and unsuccessful dialog logon attempts
- Successful and unsuccessful transaction starts
- Successful and unsuccessful report starts
- Changes to user master records

During testwork performed for the fiscal year 2015 audit, we noted the following exceptions:

- Security audit logging functionality was not enabled for the MAGIC system; thereby eliminating the ability to monitor transactional changes in the MAGIC system.
- There is no formal review process for changes to critical MAGIC tables.

Failure to adequately log transactional changes and to periodically review logs for appropriateness could result in untimely modification of data, security configuration changes, or fictitious transactions.

***Recommendation***

We recommend that the Department of Finance and Administration enable the security audit log functionality in Mississippi's Accountability System for Government Information and Collaboration system and strengthen controls over the periodic review of such logs.

**NOTE:** See Managements Response and Corrective Action Plan on page 46.

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

2015-028

Controls Should Be Strengthened Over Cash Reconciliations

*Finding:*

The Department of Finance and Administration (DF A) is required to maintain the State's general ledger necessary to support the preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles. Additionally, DF A should have policies and controls in place to ensure the State's cash balances maintained in the statewide accounting system, Mississippi's Accountability System for Government Information and Collaboration (MAGIC), reconciles to the Mississippi Office of the State Treasurer's (OST) cash balances to prevent and detect a material misstatement in the financial statements in a timely manner.

Additionally, *The Internal Control - Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when control activities, such as cash reconciliations, are performed timely and accurately. During testwork performed for the fiscal year 2015 audit, we noted the following exceptions:

- Monthly reconciliations of MAGIC cash balances to OST cash balances were not performed by DF A. An annual reconciliation was prepared for the year ended June 30, 2015.
- Multiple entries were recorded to correct cash balances and reverse unnecessary entries in MAGIC and OST's accounting systems.
- Daily Average Cash Balance (DCAB) reports were not provided to OST so that data entered into Treasury's accounting system could be reconciled timely.

Failure to perform timely reconciliations can result in the possible risk of material misstatement of financial position and fraud.

*Recommendation:*

We recommend that the Department of Finance and Administration perform timely, monthly reconciliations of cash balances and provide accurate cash reports to the Office of the State Treasurer.

**NOTE:** See Managements Response and Corrective Action Plan on page 47.

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

2015-029

Segregation of Duties Conflicts Exist within the Mississippi Accountability System for Government Information and Collaboration

*Finding:*

*The Internal Control - Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when control activities, such as proper segregation of duties, exist and are effective. Proper segregation of duties is essential to minimizing the risk of fictitious transactions and misstated financial position.

Segregation of duties is the sharing of responsibilities within a key process and dispersing the critical functions of that process to more than one person or department. At a minimum, the following functions are considered incompatible for proper segregation of duties:

- Custody
- Authorization or approval
- Recording or reporting

When proper segregation of duties is not practical, compensating controls, such as increased review and reconciliation, should be implemented to ensure proper internal control activities have been met. Good internal controls require effective segregation of duties within MAGIC to ensure critical business functions are performed by separate individuals to prevent incompatible duties which may allow users to perpetuate and conceal errors or fraud in the normal course of duty.

During testwork performed for the fiscal year 2015 audit, we noted the following exceptions:

- Multiple users were granted inappropriate authorizations giving them the ability to perform functions in MAGIC that should be segregated. These functions include:
  - Modify table content
  - View or modify critical system tables
  - Maintain client tables
- Ability to make changes to the MAGIC data dictionary was not restricted to authorized personnel
- Ability to maintain client maintenance settings was not restricted to authorized personnel.
- Ability to process manual payments in MAGIC was not restricted to appropriate personnel.
- Ability to enter, post and approve transactions was not appropriately restricted to personnel at the Department of Finance and Administration (DFA).
- Ability to enter, post and approve transactions in the E-Grants (CRM) system was not appropriately restricted to agency personnel.

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

- Personnel responsible for the development and testing of MAGIC source code were not appropriately restricted from access in production.
- Ability to generate new user access data was not restricted to appropriate personnel.
- User access for separated employees and/or contractors was not appropriately terminated timely.
- There is no formal policy and/or process in place to ensure agencies are performing routine reviews of agency personnel user access levels.
- Ability to create and maintain master data was not restricted to authorized personnel.
- 18,223 instances of conflicting duties based on role assignment in the MAGIC system.

Failure to properly segregate duties and limit user access among agency personnel greatly increases the risk of misappropriation of assets, inappropriate changes to data or files and both unintentional and intentional unauthorized activity which can result in misstatement of financial position. Additionally, with the augmented risk of misstatements of financial position, the need for timely and accurate reviews and appropriate control monitoring increases significantly. Further, such situations increase the need for additional documentation, outside monitoring, manual review, and external verification of MAGIC activities and transactions.

*Recommendation:*

To mitigate risks associated with segregation of duties conflicts, we recommend that the Department of Finance and Administration (DFA) take the necessary steps to ensure user access is granted to all users under the "least privilege" principle, fully implement the Access Control portion of the Governance, Risk, and Compliance (GRC) module within MAGIC, and ensure that agencies are performing at least quarterly user access reviews of all user access (including contractors) to their business area. Agencies should certify to DFA on an annual basis that they have completed user access reviews at least quarterly.

**NOTE:** See Management's Response and Corrective Action Plan on page 47.

2015-030

The Department of Finance and Administration Should Strengthen the Process for Compiling the Comprehensive Annual Financial Statements and the Schedule of Expenditures of Federal Awards

*Finding:*

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 post auditing. The law further requires the CAFR be published within six months after the June 30 close of the fiscal year. In addition, the Government

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART 2 – Financial Statement Findings (continued)**

---

Finance Officers Association (GFOA) requires CAFRs to be submitted within six months of the government's fiscal year end. It should be noted that the Department of Finance and Administration - Office of Financial Reporting (DF A-OFR) obtained an extension for the CAFR from GFOA this year due to the implementation of the Mississippi Accountability System for Government Information and Collaboration, (MAGIC), the new accounting system used by the State.

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 federal discretionary drawdowns.

Due the implementation of the new statewide accounting system, MAGIC, DFAOFR was unable to provide the Office of the State Auditor with the necessary financial information to perform the audit of the CAFR within six months of the close of the 2015 fiscal year. Further, reporting issues at various individual state agencies as well as DF A-OFR's current financial reporting process has hindered the ability of DF A-OFR to prepare a complete and accurate SEF A in a timely manner. The process is overly dependent on the post-audit program being a part of the internal control over financial reporting even though good internal controls state that the post-audit function should not be an internal control mechanism for any operational activity related to financial reporting. After financial packets were received from state agencies and reviewed by DF A-OFR, errors were noted by auditors that required adjusting journal entries to correct.

Other issues that required the financial information to be delayed included:

- Significant errors within MAGIC in interagency receivables and payables,
- Misstatements in capital assets,
- Reconciliation errors between cash in MAGIC and cash in Treasury,
- Transfer errors between funds, and
- Inaccuracies in financial reports produced in MAGIC.

The failure of DF A-OFR to compile financial and federal award information accurately and in a timely manner resulted in 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 that credit agencies or other stakeholders may consider the state's financial statements

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART 2 – Financial Statement Findings (continued)**

---

in a positive manner. The timeliness of the CAFR being published impacts its relevance to the various users of the CAFR.

*Recommendation:*

We recommend the Mississippi Department of Finance and Administration implement procedures to ensure the timely compilation of financial and federal award information in order to help ensure the CAFR and Single Audit Report are both published in accordance with state and federal law.

**NOTE:** See Managements Response and Corrective Action Plan on page 48.

2015-031

Written Policies and Procedures Should be in Place Related to Accounting and Reporting Matters

*Finding:*

The Department of Finance and Administration (DF A) provides agencies with the Mississippi Agency Accounting Policies and Procedures (MAAPP) manual, which provides agencies with policies and procedures related to the accounting system, input documents, output documents, internal control procedures, and accounting and reporting matters.

During our review of the internal control environment for fiscal year 2015, we noted that the MAAPP manual has not been updated since the implementation of the Mississippi Accountability System for Government Information and Collaboration (MAGIC) on July 1, 2014, and does not consider system and accounting procedures specific to the MAGIC environment.

Failure to have an adequate policy and procedure manual governing statewide accounting policies and procedures could result in misappropriation of assets and material misstatements in financial statements.

*Recommendation:*

To minimize the risk of financial misstatements and system security compromise, DFA should update the MAAPP manual to ensure relevance of policies and procedures related to the accounting and internal control procedures in MAGIC.

**NOTE:** See Managements Response and Corrective Action Plan on page 49.

2015-032

Controls Should Be Strengthened Over the Vendor Master File and Issuance of Payments to One Time Vendors

*Finding:*

The Department of Finance and Administration (DF A) is responsible for final approval of certain types of warrants issued by the State of Mississippi. These

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART 2 – Financial Statement Findings (continued)**

---

warrants are initially approved at the Agency level and then routed to DFA for final approval. Before warrants can be approved for payment, vendor information must be entered into the State's accounting system - Mississippi's Accountability System for Government Information and Collaboration (MAGIC). Vendors are then assigned a unique numerical identifier so that payments can be documented and an audit trail can be reviewed. Occasionally, warrants need to be issued on a singular basis to vendors. These "one time vendor" warrants are assigned a default vendor number and are not assigned a unique identifier. If, during the course of business, the same vendor requires additional warrants, agencies are required to request vendor information and enter the vendor into the MAGIC system, thereby assigning a unique identifier for future transactions.

In order to comply with The Code of Laws of the United States of America (26 U.S. Code Section 6041) regulations on the issuance of payments of \$600 or more, DFA has written policies to prohibit the use of the "one time vendor" distinction for any person or business issued a warrant for over \$600 for services rendered. DFA has classified certain expense general ledger accounts as "1 099 vendor accounts" and will not approve warrants to any "one time vendor" when these general ledger accounts are expensed.

During testwork performed for the fiscal year 2015 audit, we noted the following exceptions:

- 5,274 instances in which the vendors classified as one time vendors were paid multiple warrants from the same state agency; therefore, vendor information was not appropriately requested or entered in the vendor master file.
- Vendor master file data was not reviewed to ensure accuracy and completeness.

Failure to periodically review vendor master data to ensure accurate and complete vendor information has been requested and entered can lead to an increased risk of creating fictitious, incorrect, or duplicate payments and a possible misstatement of financial position. Additionally, failure to review one time vendor payments could result in erroneous tax reporting.

*Recommendation*

We recommend that the Department of Finance and Administration strengthen policies over the use of the one-time vendor code and conduct a regular review of the vendor master file to ensure complete and accurate vendor information has been entered.

**NOTE:** See Managements Response and Corrective Action Plan on page 50.

(This page left blank intentionally.)

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

**DEPARTMENT OF MARINE RESOURCES**

***Material Weakness***

2015-033

Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds

***Finding:***

MDMR procedures to ensure all significant liabilities related to outside grant reimbursement requests received after the lapse period are properly estimated and accrued into the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) need to be established.

As a result, material prior year grant expenditures were recorded as expenditures in the current year in Fund 53450000 for grant reimbursement requests paid after the lapse period.

Although MDMR's internal control procedures in place throughout the year contained a process for the identification and recording of year-end liabilities for grant reimbursement requests paid during the lapse period, the process did not fully address grant reimbursement requests for expenditures incurred by third parties before year-end submitted after the lapse period. MDM is reliant in these situations for the third party to provide timely and accurate information. MDMR does not have insight into grant progress and needs to implement appropriate grant tracking capabilities to determine when it is likely such third parties would have incurred expenditures which need to be reported by MDMR as part of its grant reporting system.

***Recommendation:***

MDMR has enhanced and improved controls during the year to establish acceptable cutoff of recorded liabilities. MDMR should continue to seek ways to strengthen policies, controls and oversight over its grants management system to ensure invoices and subgrant reimbursement requests received after the year-end close or after the end of the lapse period to be paid from current financial resources are estimated and captured for recording in the annual financial statements. To facilitate this expanded process and to address the large number of open projects at MDMR, the Agency should consider using a grants management system that would allow for increased visibility into the ongoing progress/status of its open projects and grants through a dashboard or, routine reporting by subgrantees and related monitoring of this system by MDMR personnel.

**NOTE:** See Management's Response and Corrective Action Plan on page 52.

(This page left blank intentionally.)

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

**DEPARTMENT OF PUBLIC SAFETY**

***Material Weakness***

2015-035

Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds

***Finding:***

DPS did not have procedures in place to ensure that all significant revenues are allocated among appropriate funds and agencies and properly recorded and, thus, are properly stated in accounting principles generally accepted in the United States of America (GAAP) reporting financial statements.

As a result, an adjustment was recorded to correct interfund revenue allocations.

DPS has not designed internal control procedures for proper allocation of interfund and interagency revenues and correction of any identified misstatements.

***Recommendation:***

DPS should implement a policy to properly allocate and account for interagency revenue and correct any identified issues. Additionally, there should be appropriate review and approval of the allocations to prevent and/or detect misstatements.

**NOTE:** See Management's Response and Corrective Action Plan on page 54.

(This page left blank intentionally.)

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

**DEPARTMENT OF REVENUE**

***Significant Deficiencies***

2015-016

**Controls Should Be Strengthened over Adjustments and Abatements to Taxpayer Accounts**

***Finding:***

During our review of controls over taxpayer accounts at the Mississippi Department of Revenue, we noted that the Mississippi Automated Revenue System (MARS) has security function levels that allow users the capacity to perform certain types of activity within the system. Of the 613 users with access to MARS, 574 users, or 94 percent, with security function level 2702 have the capability to change, transfer and reverse returns in the MARS system without another user interacting with the transaction. This function relates to manually clearing computer edit exceptions during the submission of tax returns in order to initially post the returns in the system, which is a fundamental job responsibility of many agency employees who work return exceptions from work list queues tailored specifically for the employee. However, the function also allows return changes to be created after the initial posting of a return, which results in the creation of a new system version of the return. The agency created a computer change request in response to this similar finding in fiscal year 2014 which would allow electronic MARS notifications to be sent to supervisors/managers when return change transactions greater than \$5,000 are made after the original return posting (i.e., amendments); however, per review of the computer change request and discussion with agency personnel, this change was not implemented during fiscal year 2015.

In addition, we noted that 255 MARS users, or 42 percent, with security function level 2904 have the capability to request and approve transaction adjustments and abatements (tax, penalty and interest abatements) in the MARS system without another user interacting with the transaction. MARS notifications are sent to supervisors/managers when an adjustment/abatement over \$5,000 is requested. However, supervisors/managers are not required to follow up on the notifications after receiving them. They do not have to log their approval via notes on taxpayer accounts or enter the actual system approval if the person requesting has security function level 2904. Based on our testwork performed on 35 adjustment/abatement transactions, we noted in three instances, or nine percent in which transactions were requested and approved by the same individual and there were no notes in MARS to indicate whether other persons were aware of the adjustment/abatement transaction.

Good internal controls require a supervisory review and approval of significant and unusual adjustments and abatements made to taxpayer trial balances. The review and approval should be performed in a timely manner and be adequately documented with the date of the review and the person approving. Failure to require a supervisory review and approval of significant and unusual adjustments

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

to taxpayers' account balances could result in errors or fraud occurring and not being timely detected, which could result in misstatements to the taxpayers' trial balances and the agency's financial statements.

*Recommendation:*

We recommend the Mississippi Department of Revenue strengthen controls over adjustments and abatements to taxpayer accounts by ensuring significant and unusual adjustments and abatements in the Mississippi Automated Revenue System are reviewed and approved by appropriate management personnel. This review and approval should be documented for internal monitoring and audit purposes.

**NOTE:** See Management's Response and Corrective Action Plan on page 56.

2015-017

Controls over Statement and Billing Processes on Taxpayer Accounts Should Be Strengthened

*Finding:*

During our review of controls over taxpayer accounts at the Mississippi Department of Revenue, we noted the Mississippi Automated Revenue System (MARS) has a functionality by which an indicator can be placed at the taxpayer, account, or period levels of a taxpayer's financial information to suspend/stop activities that include, but are not limited to, the processing and mailing of statement of accounts, assessments and bills to taxpayers by system users. Stop indicators can be created with an indefinite cease date, meaning the system will never automatically release the indicator. Our testwork revealed that 613 unique MARS user ID's, or all MARS user ID's, have the ability to place stop indicators on MARS accounts without needing approval in the system from another user.

We also noted the following instances of usage during fiscal year 2015.

- 10,603 MARS accounts had a stop statement and/or stop billing indicator placed on the account during fiscal year 2015. The vast majority of these indicators (98%) were placed on the account by the employee in the Print Shop responsible for processing returned mail, which is the primary reason stop indicators are created in MARS.
- 10,598 accounts of the 10,603 accounts noted above, or 99 percent, had a stop indicator with an indefinite cease date.

The Mississippi Department of Revenue's MARS CRM Indicators – Stop Mail, Stop Statements & Stop Billing policy states indicators without a specific end date will be routinely reviewed to ensure the indicator is valid and managers will document the review at least once each quarter. Upon inquiry, agency personnel did not perform a review of taxpayer accounts with stop indicators in place. Good internal controls require a supervisory review on taxpayer accounts in which billing and statement processes have been suspended, including, but not limited

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

to, those with an indefinite cease date. The lack of adequate controls over statement and billing processes on taxpayer accounts could result in errors or fraud occurring and not being timely detected and the possible under-collection of taxes.

*Recommendation:*

We recommend the Mississippi Department of Revenue strengthen controls over statement and billing processes on taxpayer accounts. The agency should limit access to add stop indicators to accounts in the Mississippi Automated Revenue System to employees who require this function in the course of their work. We further recommend that supervisory review and approval should be required when applying stop indicators to taxpayer accounts which stop and/or suspend statements, assessments, and bills. This review should not be limited to those accounts in which stop indicators do not have a specific end date, but should include all accounts with a stop indicator related to statements, assessments and billing. The review and approval should be performed in a timely manner and documented in order that controls can be monitored.

**NOTE:** See Management's Response and Corrective Action Plan on page 57.

2015-018

GAAP Packet Supporting Schedules Should Be Completed in a Timely Manner

*Finding:*

The Mississippi Department of Revenue (DOR) prepares a schedule of *Un-transferred Tax Collections and Receivables* as of fiscal year-end and provides the schedule annually to the Office of the State Treasurer in order for them to compile the GAAP packet for the treasury clearing fund 3917100000. Agency personnel did not perform a timely preparation of this schedule, which resulted in the Office of the State Treasurer not preparing the 3917100000 GAAP Packet timely. The final version of the schedule was submitted to the Office of the State Treasurer on January 29, 2016. The deadline for turning in GAAP packets established by the Department of Finance and Administration – Office of Financial Reporting (DFA-OFR) was November 3, 2015.

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 post auditing. 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 DFA-OFR obtained an extension for the CAFR from GFOA this year due to implementation of the Mississippi Accountability System for Government Information and Collaboration, or MAGIC, the new accounting system used by the State.

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART 2 – Financial Statement Findings (continued)**

---

The failure of agency personnel to submit required accounting schedules to the Office of the State Treasurer in a timely manner prevents the timely submission of the 3917100000 GAAP Packet to DFA-OFR and hinders the efficiency of the audit. These delays resulted in the CAFR not being published in accordance with state law and could result in the State of Mississippi not being awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA. Receiving GFOA's certificate increases the likelihood that 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 various users of the CAFR.

In addition, the Single Audit Act requires the State 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 federal discretionary drawdowns being suspended.

*Recommendation:*

We recommend the Mississippi Department of Revenue implement procedures to ensure the timely completion and submission of GAAP packet supporting schedules related to treasury fund 3917100000 to the Office of the State Treasurer in order to help ensure the CAFR and Single Audit Report are both published in accordance with state and federal law.

**NOTE:** See Management's Response and Corrective Action Plan on page 58.

2015-019

Agency Should Ensure Compliance with Federal Mandates for the Title and Motor Vehicle System

*Finding:*

The title and motor vehicle system currently being used by the Mississippi Department of Revenue is out of compliance with federal mandates concerning the Federal Anti-Car Theft Act of 1992 (ACT). This act calls for states to be able to provide information about vehicle ownership on a real time basis. The existing system does not meet this mandate nor can it be enhanced or improved. Also outages of the system have occurred in the past and the system is subject to failure at any time.

A failure in the system would result in the public being unable to buy or sell automobiles until the system can be recovered and subsequently titles can be issued. This would cause delays in the collection of significant amounts of ad valorem revenue to the state, counties, municipalities and local school boards. In

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART 2 – Financial Statement Findings (continued)**

---

addition, the State of Mississippi could face sanctions and fines from the federal government due to failure to comply with federal regulations. It should be noted that Mississippi is one of only three states that do not comply with this law. As of June 30, 2015 a request for proposals has been issued by management to replace this system.

*Recommendation:*

The Mississippi Department of Revenue should replace the title and motor vehicle system as soon as possible in order to avoid loss of services to the public, the delay of income to the state, counties, municipalities and local school boards, and possible sanctions and fines from the federal government. During the time that this new system is being developed and the existing title and motor vehicle system is being utilized, management should be mindful of the risks and deficiencies of the existing system and implement compensating controls accordingly.

**NOTE:** See Management's Response and Corrective Action Plan on page 58.

(This page left blank intentionally.)

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

**DEPARTMENT OF TRANSPORTATION**

***Material Weakness***

2015-015

**Controls Should be Strengthened to Ensure Capital Assets are Reported Timely and Accurately**

***Finding:***

During our review of financial reporting at the Mississippi Department of Transportation, we noted agency personnel did not prepare their GAAP packet for Capital Assets in a timely manner. The deadline for turning in GAAP packets established by the Department of Finance and Administration – Office of Financial Reporting (DFA-OFR) was November 3, 2015. However, the GAAP packet for Capital Assets was not submitted until January 12, 2016. Additional changes were made to the Capital Assets GAAP Packet by the agency as late as March 9, 2016.

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 DFA-OFR obtained an extension for the CAFR from GFOA this year due to the implementation of the Mississippi Accountability System for Government Information and Collaboration, or MAGIC, the new accounting system used by the State.

The failure of agency personnel to prepare their GAAP packets in a timely manner resulted in 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 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 federal

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART 2 – Financial Statement Findings (continued)**

---

discretionary drawdowns being suspended.

Annually, MDOT submits the information, known as their Capital Assets GAAP Packet, along with supporting schedules to DFA-OFR. MDOT is responsible for recording and reporting all information related to their capital assets. During our review of the Capital Asset GAAP Packet at MDOT, we noted the following errors that required correction:

- Depreciation expense for infrastructure assets was not booked in the current year in the amount of \$325,161,575.
- Building and land improvement assets were incorrectly reported as infrastructure assets in the amount of \$64,652,868.
- Of the \$64,652,868 amount listed above, \$48,847,439 was reported as building and land improvements at the same time it was improperly included as infrastructure resulting in an overstatement in MDOT's capital assets.

Failure to record current year infrastructure depreciation and properly reflect capital asset additions could result in a material misstatement in Mississippi's CAFR that is reported in accordance with GAAP.

*Recommendation*

We recommend the Mississippi Department of Transportation strengthen internal controls to ensure their capital assets are reported timely, accurately, and in accordance with federal and state law. Additionally, we recommend the Mississippi Department of Transportation ensure the individuals responsible for preparing and approving GAAP packets have adequate knowledge to ensure the capital asset GAAP packet is properly completed.

**NOTE:** See Management's Response and Corrective Action Plan on page 61.

(This page left blank intentionally.)

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

**MISSISSIPPI DEVELOPMENT AUTHORITY**

***Significant Deficiency***

2015-013

**Controls over GAAP Reporting of Loans Receivable Should Be Strengthened**

***Finding:***

During our review of the loans receivable recorded in the GAAP reporting packet for fund 634AE00000, the Mississippi Industry Incentive Fund, at the Mississippi Development Authority, we noted the following problems for which audit adjustments were proposed and subsequently made by agency personnel.

- An allowance for uncollectible loans receivable was not properly determined for a loan by the agency. This error resulted in an overstatement of loans receivable in the amount of \$21,118,950.
- A loan in the amount of \$13,000,000, which was made in fiscal year 2016, was incorrectly recorded as a loan receivable on the fiscal year 2015 GAAP reporting packet.

Generally accepted accounting principles require that loan balances, including an allowance for uncollectible loan receivables, be properly recorded. The basic accounting principle of conservatism should be used when determining estimates for the allowance for uncollectible loan amounts in order to ensure that loan balances are not overstated. In addition, Section 27.30.30 of the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual provides instructions for recording of loans receivable and the determination of the related allowance for uncollectible loans receivable. The failure to adequately follow generally accepted accounting principles could result in the financial statements being misstated.

***Recommendation:***

We recommend the Mississippi Development Authority strengthen internal controls to ensure loans receivable and allowances for uncollectible loan receivables recorded in the GAAP reporting packets are fairly stated. Management should review the process each year for determining the allowance for uncollectible loans receivable to ensure the basic accounting principle of conservatism is adhered to. In addition, when circumstances and events occur after the submission of the GAAP reporting packet to the Department of Finance and Administration in which relevant factors differ from the assumptions used by management in determining the estimate for the allowance account, management should consider the impact on the accounting records and communicate these changes timely to the auditors.

**NOTE:** See Management's Response and Corrective Action Plan on page 69.

(This page left blank intentionally.)

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

**OFFICE OF THE STATE TREASURER**

*Significant Deficiency*

2015-014

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

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART 2 – Financial Statement Findings (continued)**

---

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.

**NOTE:** See agency response on page 72 and auditor's note on page 75.

(This page left blank intentionally.)

STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART 2 – Financial Statement Findings (continued)

---

**WILDLIFE, FISHERIES & PARKS**

***Material Weaknesses***

2015-036                      Audited Financial Statements Should Be Submitted in a Timely and Accurate 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 MDWFP, we noted the MDWFP fund financial statements were 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 April 12, 2016.

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. 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.

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART 2 – Financial Statement Findings (concluded)**

---

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.

Our audit procedures resulted in audit adjustments to accounts payable, due to other governments and various transfers between agencies. Currently, as a result of the implementation of MAGIC, as described above, accrual entries and entries involving transfers between funds and governments may sometimes be made by MDWFP personnel and sometimes by personnel at the Department of Finance and Administration.

*Recommendation:*

We recommend MDWFP implement procedures to ensure the timely submission of their audited 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.

Further, controls should be implemented so that specific personnel are responsible for each account balance that is to be a part of the financial reporting process.

**NOTE:** See Management's Response and Corrective Action Plan on page 67.

(This page left blank intentionally.)

**Schedule of Findings and Questioned Costs:**  
**Part 3**  
**Management Response**



(This page left blank intentionally.)



**STATE OF MISSISSIPPI**

DEPARTMENT OF CORRECTIONS

**MARSHALL FISHER**  
COMMISSIONER

COMPLIANCE REVIEW FINDINGS

April 11, 2016

Honorable Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
P. O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

We have reviewed the audit finding below in reference to the Mississippi Department of Corrections 2015 fiscal year audit. Listed below is our individual response and plan for corrective action:

Audit Finding: Agency Should Ensure Compliance with Provisions of Laws, Regulations and Contracts  
2015-020

Response: The agency concurs with this finding.

Corrective Action: The Mississippi Department of Corrections (MDOC) has rebid substantially all contracts mentioned in the Governor's directive. MDOC has engaged a CPA firm to assist in developing an internal control plan for MDOC, which will include processes and procedures related to all procurements.

Should you have any questions regarding our response or corrective action plan, please feel free to contact Rick McCarty at (601) 359-5682.

Sincerely,

A handwritten signature in cursive script, reading "Marshall Fisher", is written over a horizontal line.

Marshall Fisher  
Corrections Commissioner  
State of Mississippi

(This page left blank intentionally.)



## MISSISSIPPI DEPARTMENT OF EDUCATION

Carey M. Wright, Ed.D.  
*State Superintendent of Education*

March 28, 2016

The Honorable Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
P.O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

In accordance with your correspondence dated March 9, 2016, the Mississippi Department of Education (MDE) is providing the following response and corrective action plan for the financial audit findings for the fiscal year ending June 30, 2015.

2015-021      GAAP Packet Review Should be Comprehensive and GAAP Packets Should be Completed in a Timely Manner

Response:      The Mississippi Department of Education (MDE) does acknowledge that Fund 532010000 was not submitted until December 16, 2015, and that based on the timeline provided by the Mississippi Department of Finance and Administration (DFA) was considered late. However, we would like to point out that the delay in submitting the GAAP package was directly related to the mandated implementation of the Mississippi's Accountability System for Government Information and Collaboration (MAGIC) by DFA.

The initial workshop held by DFA to provide agencies guidance for the preparation of the GAAP package was held in late October, 2015. Agencies were subsequently notified by email on October 29, 2015, that GAAP packages were due on November 3, 2015. Given the comparatively large number and dollar amount of the funds MDE is required to submit, and the extremely short turn-around time for submitting the information, an extension was requested and approved by DFA. MDE worked with DFA to submit GAAP packages for all forty (40) funds. The majority of the funds were submitted timely. However, with Fund 532010000 being the largest and most complex, was submitted last. The MDE will take the necessary steps to ensure that all GAAP Fund packages are submitted timely in the future. However, MDE believes that without the chaos and confusion brought about by the unwise decision to implement MAGIC without a pilot being conducted, or allowing the new system to run parallel with the old system, the GAAP package would have been submitted in a timely manner.

Additionally, the auditor noted that expenditure accruals totaling \$40,368,389 for Fund 532010000 were not initially recorded in 2015, but in fiscal year 2016. Again, this was a direct result of the implementation of MAGIC. The Department of Finance and Administration held a workshop on Saturday, June 27, 2015, at which all agencies were required to zero out remaining balances in fiscal year 2015 federal grant budgets before the start of the new fiscal year. Budget staff from MDE attended the workshop and completed the exercise as instructed. By requiring all fiscal year 2015 federal budgets to be zeroed out prior to the start of the new fiscal year, the only available federal budgets from which payments could be made in July, 2015 were fiscal year 2016 budgets. This led to payments that should have been posted to fiscal year 2015 budgets being posted to fiscal year 2016 budgets. Additionally, DFA made all accruals for fiscal year 2015 as opposed to previous years when agencies made their own accruals. Since DFA was not aware of what a normal accrual would look like for this fund, they were not aware that the accrual amount should have reflected the payments made for fiscal year 2015 from the fiscal year 2016 budget due to the requirement of zeroing out the fiscal year 2015 budget prior to the close of the fiscal year. Thus, leading to the payments being posted in the incorrect fiscal year. The process of zeroing out federal budgets before the start of a fiscal year has never been required, and, according to DFA, will not be required for future fiscal years. Again, MDE directly attributes the incorrect posting of the expenditures for this fund to the implementation of MAGIC and believes this finding is unwarranted.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

The Mississippi Department of Education will exercise due care in the future to ensure that a thorough and comprehensive review of all data is performed and completed timely.

B. Name of the contact person responsible for corrective action.

James A. Hart, Director – Office of Accounting

C. Anticipated completion date for corrective action.

June 30, 2016

The MDE would like to extend our appreciation for the courtesy and professionalism exhibited by the audit team of the Office of the State Auditor conducting this audit. We acknowledge the compressed time frame in which the audit had to be completed due to the impact of the implementation of MAGIC. We are grateful to the Office of the State Auditor's entire staff for their willingness to earnestly take into consideration our comments on issues before the final audit report was released.

Should you have any questions or need additional information please do not hesitate to contact me.

Sincerely,



Carey M. Wright, Ed.D.  
State Superintendent of Education

(This page left blank intentionally.)



**STATE OF MISSISSIPPI**  
GOVERNOR PHIL BRYANT

**DEPARTMENT OF FINANCE AND ADMINISTRATION**  
KEVIN J. UPCHURCH  
EXECUTIVE DIRECTOR

April 15, 2016

**FINANCIAL AUDIT FINDINGS**

Honorable Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
Post Office Box 956  
Jackson, Mississippi 39205-0956

Dear Mr. Pickering:

In reference to your letter dated March 30, 2016, we submit the following responses and corrective action plans to the financial audit findings for the Department of Finance and Administration for the fiscal year ended June 30, 2015:

**AUDIT FINDINGS:**

**MATERIAL WEAKNESS**

**Finding Number**

**Finding Recommendation**

**2015-027**

**Controls Should Be Strengthened over the Security Audit Log of Mississippi's Accountability System for Government Information and Collaboration (MAGIC)**

**Response:** We agree with this recommendation.

**Corrective Action Plan:**

- A. The Department of Finance and Administration (DFA) will enable the security audit log functionality in MAGIC.
- B. The contact person responsible for this corrective action is Jenny Bearss, Chief System Information Officer.
- C. The anticipated date of implementation is no later than May 1, 2016.
- D. N/A

**2015-028                      Controls Should Be Strengthened Over Cash Reconciliations**

**Response:** We agree with this recommendation.

**Corrective Action Plan:**

- A. The Office of Financial Reporting is currently reconciling MAGIC cash balances to the Office of State Treasurer's cash balances on a monthly basis. DFA is providing a Daily Average Cash Balance (DACB) report to the Office of the State Treasurer.
- B. Donna McFarland is the contact person responsible for this corrective action.
- C. We implemented this corrective action in December 2015.
- D. N/A

**Additional comments:**

Fiscal Year 2015 was the implementation year for MAGIC. As with the implementation of any new accounting system, there were many issues that had to be resolved and corrected. There were issues with reconciling cash that have been resolved. The cash reconciliation is now performed timely and working properly.

The DACB report is continuing to be enhanced to provide additional information for the Office of the State Treasurer to use. It should be noted that MAGIC is the system of record, not the Office of the State Treasurer's system (QED).

**2015-029                      Segregation of Duties Conflicts Exist within MAGIC**

**Response:** We agree with this recommendation.

**Corrective Action Plan:**

- A. The MAGIC team and business owners will review the roles and security associated with users to ensure that we eliminate these conflicts in the future. The MAGIC team will consider segregation of duty conflicts when adding new users and require agencies to certify to DFA, on an annual basis, that they have completed user

access reviews at least quarterly. Much of the responsibility rests with the agencies as they add users in MAGIC.

B. Diane Langham and Mark Valentine are the contact persons responsible for this corrective action.

C. We anticipate implementing the Governance, Risk, and Compliance (GRC) module by June 30, 2017.

D. N/A

**Additional comments:**

During Fiscal Year 2015, DFA was made aware that there were several security settings established by the SAP implementation team that resulted in inappropriate authorization for a few MAGIC team members. While no instance has been discovered that any changes to data resulted, the access has been appropriately restricted.

This corrective action plan will ensure compliance with the “least privilege” principle, ensure full implementation of the Access Control portion of the (GRC) module within MAGIC, and ensure that agencies are performing at least quarterly user access reviews of all user access (including contractors) to their business areas.

**2015-030**

**The Department of Finance and Administration Should Strengthen the Process for Compiling the Comprehensive Annual Financial Statements and the Schedule of Expenditures of Federal Awards**

**Response:** We agree with this recommendation.

**Corrective Action Plan:**

- A. Edits and changes to MAGIC have been made to ensure the correct reporting of Interagency receivables and payables. DFA is working to correct the Capital Assets and implement a plan to ensure that misstatements do not occur in the future. We are making adjustments for reconciling differences between MAGIC cash and Treasury cash on a monthly basis and revising Financial Reports to provide accurate information.
- B. The contact person responsible for this corrective action is Donna McFarland.

- C. We implemented this corrective action in phases, most of which were corrected during the Comprehensive Annual Financial Report (CAFR) preparation process. The first phase was implemented in December 2015, with implementation for additional phases in March and April 2016.

A. N/A

**Additional comments:**

Fiscal Year 2015 was the implementation year for MAGIC. As with the implementation of any new accounting system, there were many issues that had to be resolved and corrected. Most of the issues that have been identified have been resolved or are in the process of being resolved.

**2015-031                      Written Policies and Procedures Should be in Place Related to Accounting and Reporting Matters**

**Response:** We agree with this recommendation.

**Corrective Action Plan:**

- A. The DFA is in the process of reviewing and updating the Mississippi Agency Accounting Policies and Procedures (MAAPP) manual. A revision in conjunction with implementation would have been impractical due to the many changes that occur during implementation. In fact, we are still making “tweaks” to MAGIC. Once we are comfortable that we are substantially complete, we will place a greater focus on the revision.

The MAAPP manual still has many relevant sections. There are many user aids and training materials currently available to users on the MAGIC web site. The vision for the revised MAAPP manual will not only address policies and procedures, but will contain hyperlinks that users can “click on” to access the many training aids available. As more aids are developed, we will add them to the respective sections of the MAAPP manual.

- B. The contact persons responsible for this corrective action are Donna McFarland and Mark Valentine.
- C. There have already been some updates to the MAAPP manual and there will be more to come. There really is no anticipated completion date due to the manual being a fluid document that will continually be updated. It must change as processes

change, etc. However, we anticipate the first installment of updates to begin shortly after July 1, 2016.

D. N/A.

**Additional comments:**

The DFA provided Business Process Flow documents to agencies prior to Go-Live and training documentation included reference to those documents. Additionally, the DFA notified agencies of various policies and procedures through frequent email communication.

**SIGNIFICANT DEFICIENCY**

**2015-032**

**Controls Should Be Strengthened Over the Vendor Master File and Issuance of Payments to One-Time Vendors**

**Response:** We agree with this recommendation.

**Corrective Action Plan:**

- A. Agencies should use a one-time vendor for non-recurring payments and payments for non 1099-MISC services. A MAGIC edit prevents a one-time vendor from being used with an expenditure code that is a 1099-MISC service. DFA will perform a detailed review of all payments made during FY 2015 and to date in 2016 and issue specific rules and regulations on the use of a one-time vendor. In addition, DFA will pursue additional system edits to prevent multiple payments to a single vendor using a one-time vendor number.
- B. The contact person responsible for this corrective action is Mark Valentine.
- C. The review will be completed by June 30, 2016, with the system edits to be completed by December 31, 2016.
- D. N/A.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Kevin J. Upchurch

(This page left blank intentionally.)



**STATE OF MISSISSIPPI**

Phil Bryant  
Governor

**MISSISSIPPI DEPARTMENT OF MARINE RESOURCES**

Jamie M. Miller, Executive Director

**FINANCIAL AUDIT FINDINGS**

April 6, 2016

Honorable Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
P. O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

We have reviewed the audit finding below in reference to the Mississippi Department of Marine Resources 2015 fiscal year audit. Listed below is our individual response and plan for corrective action:

Audit Finding: *LIABILITIES FOR GRANT REIMBURSEMENTS AFTER THE LAPSE PERIOD*  
2015-033

Response: The agency concurs with this finding.

Corrective Action: Management notes this matter was isolated to beginning-of-year balances. Management has strengthened internal controls over accounts payable and other areas during the year to establish proper cutoff procedures. Mississippi Department of Marine Resources is currently working to procure a grants management system that will facilitate auditor recommendations.

Should you have any questions regarding our response or corrective action plan, please feel free to contact Kacey Williams at 228.523.4169.

Sincerely,

A handwritten signature in blue ink that reads "Jamie M. Miller".

Jamie Miller  
Executive Director  
State of Mississippi

(This page left blank intentionally.)



**STATE OF MISSISSIPPI**  
PHIL BRYANT, GOVERNOR  
**DEPARTMENT OF PUBLIC SAFETY**  
ALBERT SANTA CRUZ, COMMISSIONER

**FINANCIAL AUDIT FINDINGS**

April 13, 2016

Honorable Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
P. O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

We have reviewed the audit finding below in reference to the Mississippi Department of Public Safety 2015 fiscal year audit. Listed below is our individual response and plan for corrective action:


Audit Finding: Allocation of Interagency Revenue  
2015-035

Response: The agency concurs with this finding.

Corrective Action: Management has implemented procedures to ensure future material interagency revenues are properly allocated and recorded.

Should you have any questions regarding our response or corrective action plan, please feel free to contact Carla Hutson at 601.987.1212.

Sincerely,

  
Albert Santa Cruz  
Commissioner  
Mississippi Department of Public Safety

(This page left blank intentionally.)



— DEPARTMENT OF —  
**REVENUE**  
STATE OF MISSISSIPPI

Office of the Commissioner

March 14, 2016

FINANCIAL AUDIT FINDINGS

Stacey E. Pickering, State Auditor  
Office of the State Auditor  
P.O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

With respect to your audit of the financial statements of the Department of Revenue for the Fiscal Year ended June 30, 2015, we offer the following comments:

**Controls Should Be Strengthened Over Adjustments And Abatements To Taxpayer Accounts**

Finding number 2015-016:

42% of users with MARS security function level 2904 have the capability to request and approve transaction adjustments and abatements (tax, penalty, and interest abatements) in the MARS system without another user interacting with the transaction. MARS notifications are sent to supervisors/managers when an adjustment/abatement over \$5000 is requested. However, supervisors/managers are not required to follow up on the notifications after receiving them. Based on test work performed on 35 transactions, we noted in three instances, or nine percent, transactions were requested and approved by the same individual and there were no notes in MARS to indicate whether other persons were aware of the adjustment/abatement transaction.

Good internal controls require a supervisory review and approval of significant and unusual adjustments and abatements made to taxpayer trial balances. The review and approval should be performed in a timely manner and adequately documented with the date of the review and the person approving.

Response:

We agree. Tax return processing and corrective actions, required to properly administer tax returns, are important services the agency performs for the citizens of Mississippi. The quality of our work must be exceptional and the quantity of returns processed must be balanced to accomplish our mission without adding administrative requirements that contribute to inefficiency.

Corrective Action:

MARS generated notifications for return change adjustments over the DOR threshold enhance oversight capability. Managers are instructed and agency policy states managers should place an approval note on the taxpayer account for significant and unusual adjustments/abatements. To support timely action by

managers, a report has already been developed to list notifications that have not been viewed by user. Additional notifications for return change adjustments must be created in the system and a programming request for those notifications has already been made. That request will be moved to a higher priority as soon as possible. Executive staff has addressed the importance of documenting management review and approval whenever notifications for significant and unusual adjustments and abatements are made on taxpayer trial balances.

Name: Jennifer Wentworth  
Date: 05/31/16

**Controls Over Statement and Billing Processes on Taxpayer Accounts Should Be Strengthened**

Finding number 2015-017:

All MARS (Mississippi Automated Revenue System) user ID's have the ability to place stop indicators on MARS accounts without needing approval in the system from another user. Stop indicators can be created with an indefinite cease date, meaning the system will never automatically release the indicator. Agency policy states indicators without a specific end date will be routinely reviewed to ensure the indicator is valid and managers will document the review at least once each quarter. Upon inquiry, agency personnel did not perform a review of taxpayer accounts with stop indicators in place.

Good internal controls require a supervisory review on taxpayer accounts in which billing and statement processes have been suspended, including, but not limited to, those with indefinite cease dates. The review and approval should be performed in a timely manner and documented in order that controls can be monitored. The agency should limit access to add stop indicators to accounts in MARS to employees who require this function in the course of their work.

Response:

We understand the importance of good internal controls and we agree that supervisory review of taxpayer accounts in which billing and statement processes have been suspended is required to ensure effective administration of accounts. Of the 10,603 accounts with stop billing and/or stop statement indicators applied during FY 2015, 98% were required to discontinue mail to taxpayers for returned mail received due to incorrect addresses. The agency has an automated process that searches for a good address. If a good address is found, the stop indicator is ceased.

Corrective Action:

The remaining 208 accounts with stop indicators applied will be reviewed by a manager during FY 2016 and the practice will continue as an ongoing activity for DOR management. Managers will confirm that review of taxpayer accounts with suspended billing and statement processes are completed and documented according to agency policy.

Name: DOR Associate Commissioners  
Date: June 30, 2016

**GAAP Packet Supporting Schedules Should Be Completed In a Timely Manner**

Finding number 2015-018:

The Mississippi Department of Revenue (DOR) prepares a schedule of *Untransferred Tax Collections and Receivables* as of fiscal year-end and provides the schedule annually to the Office of the State Treasurer in order for them to compile the GAAP packet for the treasury clearing fund 3917100000. Agency personnel did not perform a timely preparation of this schedule. These delays resulted in the comprehensive annual financial report (CAFR) not being published in accordance with state law.

Procedures to ensure the timely completion and submission of GAAP packet supporting schedules related to treasury fund 3917100000 to the Office of the State Treasurer should be implemented to help ensure the CAFR and Single Audit Report are both published in accordance with state and federal law.

Response:

The schedule of *Untransferred Tax Collections and Receivables* was first submitted to the Treasury on November 25, 2015. Once the Treasury began their review of the schedule, they informed DOR about additional balances within the revenue types in the fund. These balances all needed to be researched and reconciled, and correcting entries had to be prepared by DOR. That process takes time, and DOR's Accounting personnel worked extra hours every week in order to complete their day-to-day work along with the reconciliation process. With the State's previous accounting system (SAAS), these types of entries were not needed. Moving to a new accounting system over the last year has been challenging, and the completion of the Untransferred Schedule was no exception.

Corrective action:

Mississippi Department of Revenue has implemented procedures to ensure timely completion and submission of GAAP packet supporting schedules.

Name: Jennifer Wentworth

Date: 2/22/16

**Agency Should Ensure Compliance With Federal Mandates For The Title and Motor Vehicle System**

Finding number: 2015-019

The Title and Motor vehicle system currently being used by Mississippi Department of Revenue (MDOR) is out of compliance with federal mandates concerning the federal Anti-Car Theft Act of 1992 (ACT). This act calls for states to be able to provide information about vehicle ownership on a real time basis. The existing system cannot meet the mandate nor can it be enhanced or improved. Also outages of the system have occurred in the past and the system is subject to failure at any time.

The MDOR should replace the title and motor vehicle system as soon as possible in order to avoid loss of services to the public, the delay of income to the state, counties, municipalities, and local school boards, and possible sanctions and fines from the federal government.

Response:

We agree.

Corrective Action:

As of June 30, 2015 a Request for Proposal (RFP) was being developed, and the RFP was issued through ITS in October 2015.

Name: Jennifer Wentworth  
Date: June 30, 2016

Our staff is available to furnish any additional information requested or further details concerning this audit of our financial statements and the implementation of suggested changes.

Respectfully,

A handwritten signature in black ink, appearing to read "J. Ed Morgan". The signature is fluid and cursive, with a large, sweeping initial "J" and "E".

J. Ed Morgan,  
Commissioner of Revenue

(This page left blank intentionally.)



## **FINANCIAL AUDIT FINDING**

March 21, 2016

Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
P.O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

We received the Financial Audit Management Report and the following details our response to the Audit Finding for FY 2015:

<b><u>Finding Number</u></b>	<b><u>Finding and Recommendation</u></b>
------------------------------	--

	<b>MATERIAL WEAKNESS</b>
--	--------------------------

2015-015	<b><u>Controls Should Be Strengthened to Ensure Capital Assets are Reported Timely and Accurately</u></b>
----------	---

*Finding:*

During our review of financial reporting at the Mississippi Department of Transportation, we noted agency personnel did not prepare their GAAP packet for Capital Assets in a timely manner. The deadline for turning in GAAP packets established by the Department of Finance and Administration – Office of Financial Reporting (DFA-OFR) was November 3, 2015. However, the GAAP packet for Capital Assets was not submitted until January 12, 2016. Additional changes were made to the Capital Assets GAAP Packet by the agency as late as March 9, 2016.

Annually, MDOT submits the information, known as their Capital Assets GAAP Packet, along with supporting schedules to DFA-OFR. MDOT is responsible for recording and reporting all information related to their capital assets. During our review of the Capital Assets GAAP Packet at MDOT, we noted the following errors that required correction:

- Depreciation expense for infrastructure assets was not booked in the current year in the amount of \$325,161,575.
- Building and land improvement assets were incorrectly reported as infrastructure assets in the amount of \$64,652,868.

- Of the \$64,652,868 amount listed above, \$48,847,439 was reported as building and land improvements at the same time it was improperly included as infrastructure resulting in an overstatement in MDOT's capital assets.

**Response:**

1. *MDOT did not prepare the GAAP Package for Capital Assets in a timely manner.*

MDOT does not concur with this finding. The department received all required information and MAGIC functionality from DFA on January 7, 2016 and submitted the Capital Assets GAAP packet on January 12, 2016.

In order for MDOT to timely prepare the capital assets GAAP packet, we need directives from DFA to be complete and timely. MS Code Section 27-104-4(1) sets forth not only the agency's responsibilities in GAAP preparation but also the responsibility of DFA to provide procedures and accounting systems necessary for the agency's to fulfill their responsibility:

“Each state agency shall prepare annual financial statements at such times as required by the State Fiscal Officer. The statements shall be in accordance with generally accepted accounting principles. *The State Fiscal Officer, in consultation with the State Auditor, shall prescribe rules and regulations to implement and specify the records, procedures and accounting systems necessary to carry out the provisions of this section* [emphasis added].”

Section 27 of the Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual contains the regulations, procedures, and templates for GAAP reporting but has not been updated since MAGIC was implemented. DFA did not provide agencies with the new procedures and templates until the GAAP packets were delivered so there was no way for agencies to prepare or obtain training.

DFA did not provide the agencies with a complete FY 2015 GAAP packet timely. Prior to MAGIC, DFA would submit a GAAP packet to the agencies around the first of July with the trial balances for each fund, schedules and which funds and notes were

required. This year, the GAAP packet was pieced to us with minimal training until October 13, 2015, three months later than normal. Agencies were then given a two week period to complete. Due to the complexity of our GAAP packet, MDOT has always received a time extension in the past. It was unreasonable to expect MDOT to meet a November 3<sup>rd</sup> deadline.

Entering capital assets GAAP entries into MAGIC was a new process. Prior to MAGIC, DFA had always made the necessary classifications as part of their GAAP preparation. DFA did not inform MDOT of this new process until mid-October 2015 and they did not provide nor develop the accounting structure that would allow us to make our infrastructure entries until December 2015.

MDOT has been attempting to work with DFA for over two years to bring proper attention to capital assets. MDOT initiated a meeting with DFA-OFR, an MMRS MAGIC representative, and an SAP representative on March 26, 2014 to proactively develop procedures for capturing capital assets such as buildings, land, and land improvements in MAGIC. MDOT repeatedly sought guidance from DFA throughout the last two years, as we were not able to post our buildings, land, or land improvements into MAGIC. Processes regarding capital assets continued to be undefined with no engagement from DFA until entries were required for GAAP purposes. DFA finally began working with MDOT in October 2015 to determine how these assets were to be entered into MAGIC for GAAP purposes. We emailed DFA several times in November about CIP adjustments and conversions to be posted in MAGIC. At this point, DFA required us to prepare GAAP entries for capital assets in MAGIC without providing a process or training. We met with DFA twice in December regarding the posting of our FY 2014 and FY 2015 assets in MAGIC. It wasn't until December 23, 2015 that we were able to post our outstanding CIP assets in MAGIC. As of January 7, 2016, the beginning balances for capital assets were not entered in MAGIC. We were provided a paper copy of FY 2014 verified ending balances by DFA on January 6, 2016. Two new accounts for capital assets (1) OFR Capital Assets Infrastructure Under Const (Reporting) and (2) OFR Capital Assets Right of Way (Reporting) needed to be set up in MAGIC in order for us to properly make the GAAP entries.

We were not notified that the two new accounts were set up until January 7, 2016.

2. *Depreciation expense for infrastructure assets was not booked in the current year in the amount of \$325,161,575.*

Preparing entries for Capital Assets in MAGIC was a new process for both DFA and MDOT. Prior to MAGIC, DFA had always made the necessary classifications as part of their GAAP preparation. Since MDOT did not have any prior knowledge of how DFA treated capital assets after the GAAP packet was submitted, DFA provided MDOT with the entries to prepare for FY 2015. However, neither DFA nor MDOT realized depreciation expense for infrastructure assets needed a journal entry in MAGIC.

3. *Building and land improvements assets were incorrectly reported as infrastructure assets in the amount of \$64,652,868.*
4. *Of the \$64,652,868 amount listed above, \$48,847,439 was reported as building and land improvements at the same time it was improperly included as infrastructure resulting in an overstatement in MDOT's capital assets.*

The misclassification of buildings was our oversight due to certain buildings being constructed with federal dollars. In the future, the Financial Reporting Section will be working with the Asset Management Division to reconcile building additions and deletions monthly. It should be noted the error was not detected by the Office of the State Auditor's staff during their review but by MDOT management, who then reported the error to DFA and OSA.

In summary, MDOT did timely submit the Capital Assets GAAP packet once the proper accounting structure was setup in MAGIC by DFA. We are always looking for opportunities to strengthen our internal controls and will begin a monthly reconciliation of capital assets to minimize errors like the one we self-reported this year.

**Corrective Action Plan:**

- A. While we had many controls in place, we believe performing a monthly reconciliation of capital assets will enhance our process.

B. The Financial Management Director, Alison Brown and her staff as well as Asset Management Director, Julie Ethridge and her staff are responsible for this corrective action plan.

C. This corrective action plan was implemented immediately.

Should you have any questions or need additional information, contact our Financial Management Division at (601) 359-7400.

Sincerely,



Melinda L. McGrath, PE  
Executive Director

MLM:kyo

cc: Lisa Hancock, Deputy Executive Director/Administration  
Alison Brown, Financial Management Director  
Julie Ethridge, Asset Management Director



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

**Auditor's note to the Response from Management**

**MISSISSIPPI DEPARTMENT OF TRANSPORTATION**

**MATERIAL WEAKNESS**

**Finding Number**

**Finding Heading**

2014-015

**Controls Should Be Strengthened to Ensure Capital Assets are Reported  
Timely and Accurately**

Rebuttal to Agency Response:

We have reviewed the comments made by the agency in response to the above noted finding. The Mississippi Department of Transportation (MDOT) provided the Department of Finance and Administration (DFA) with a GAAP Management Representation letter, dated November 3, 2015, in which Management represented that the agency's financial statements were presented fairly in all material aspects and that all material transactions had been recorded in the accounting records. This letter included representations regarding any capital asset accounts. While the Office of the State Auditor (OSA) disagrees with the above detailed timeline of events, implications that DFA did not provide adequate assistance, and that OSA did not alert management of MDOT to material misstatements noted in the finding, the final responsibility of providing accurate and timely financial information for the ongoing operations of MDOT lies with the management of MDOT.

Deficiencies in this reporting were noted for Fiscal Year 2015, and require appropriate disclosure to the users of the Consolidated Annual Financial Report and to the federal grantor agency.

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.



**MISSISSIPPI  
DEPARTMENT OF WILDLIFE, FISHERIES, AND PARKS**

**Sam Polles, Ph.D.  
Executive Director**

**FINANCIAL AUDIT FINDINGS**

April 18, 2016

The Honorable Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
P. O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

2015-036 Material Weakness – Audited Financial Statements Should Be Submitted in a Timely and Accurate Manner

**Response:** The Mississippi Department of Wildlife, Fisheries, and Parks (MDWFP) acknowledges that audited financial statements were not submitted in a timely manner. We attribute the delay to the statewide accounting system known as MAGIC (Mississippi's Accountability System for Government Information and Collaborations) which was implemented on July 1, 2014 for FY15.

The Department of Finance and Administration (DFA), which is responsible for the compilation of the States' Comprehensive Financial Accounting Report and which provides instructions on the materials needed for that report, did not provide training assistance to agencies on preparing the GAAP packets utilizing the MAGIC system until mid-October 2015. In prior years the GAAP packets were submitted by the first week in August so this training was at least 60 days later than the prior submission date and this was a contributing factor to our agency's delay in timely reporting. On numerous occasions, deadlines that were set by DFA had to be adjusted due to lack of information or system limitations.

The GAAP training session was not comprehensive and consisted mainly reviewing MAGIC trial balances. The training did not detail how agencies should verify the information nor did it explain how the accrual entries were made for the agencies. The training further stated that DFA "will promulgate policies for federal and other grant accounting" to be used for FY16, which indicates there were not rules in place for FY15. This lack of training was also a contributing factor to MDWFP's timely reporting.

The agency's external auditors began their audit work on the completed GAAP schedules in December. The MDWFP provided a training session by a third-party consulting firm to the external auditors to enable them to obtain reports from MAGIC without delays which may have occurred due to daily responsibilities of accounting staff.

(This page left blank intentionally.)



**STATE OF MISSISSIPPI**  
PHIL BRYANT, GOVERNOR  
**MISSISSIPPI DEVELOPMENT AUTHORITY**  
GLENN MCCULLOUGH, JR.  
EXECUTIVE DIRECTOR

**Financial Audit Management Report**

March 22, 2016

Honorable Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
P. O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

*Stacey,*

This letter is in response to the findings during the Financial Audit Findings of the Mississippi Development Authority (MDA) for the fiscal year ended June 30, 2015. Our response is as follows:

**MATERIAL WEAKNESS**

**2015-013     Controls over GAAP Reporting of Loans Receivable Should Be Strengthened**

**Response:**

MDA concurs with the finding.

**Corrective Action Plan:**

At the time the allowance for uncollectible accounts was set up, MDA still had equipment for sale and two other pending lawsuits that were available for recourse. This was the best estimate at the time. In future instances and based on the circumstances, MDA will use a conservative approach as required by GAAP when determining balances for uncollectible amounts. Also, MDA will notify the State Auditor's office of potential uncollectible loans that may affect financial

Honorable Stacey Pickering  
March 22, 2016  
Page 2 of 2

reporting. Since this was a unique situation, and at the time of an uncollectible account was set up there was a potential for recourse, there was no past precedence set for determining uncollectible accounts, and an acceptable method by the banking industry was used for the determination of uncollectible accounts, MDA made the best determination at the time for uncollectible accounts.

As for the dates on the Grenada Rail disbursement, this loan was being worked on by the agency along with several other concerned parties starting in early 2015. The original loan closing was anticipated to happen in June of 2015, this date was pushed back due to negotiations and when the revised loan closing was scheduled, agency staff inadvertently coded the expenditure to FY 2015.

We appreciate the professional manner in which the audit team conducted this audit. If you have any questions concerning this response, please contact Brian Daniel at (601) 359-2596.

Very truly yours,



Glenn McCullough, Jr.

GM:bd

(This page left blank intentionally.)



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.

Post Office Box 138 • Jackson, Mississippi 39205  
1101 Woolfolk State Office Building • 501 North West Street • Jackson, Mississippi 39201  
Telephone (601) 359-3600 • Telefax (601) 576-2560 • [www.treasury.ms.gov](http://www.treasury.ms.gov)

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

(This page left blank intentionally.)



**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**

2015-014

**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.

(This page left blank intentionally)



**Office of the State Auditor**  
**Post Office Box 956**  
**Jackson, Mississippi 39205-0956**  
**[www.osa.state.ms.us](http://www.osa.state.ms.us)**