

OFFICE OF THE STATE AUDITOR MISSISSIPPI

YELLOW BOOK REPORT

*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*

STEPHANIE C. PALMERTREE, CPA, CGMA
Director, *Financial and Compliance Audit Division*

MICHAEL S. TORRES JR., CPA
Director, *Agency Audit Division*



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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
AUDITOR

February 28, 2020

Honorable Tate Reeves, Governor
State of Mississippi
P.O. Box 139
Jackson, Mississippi 39205

Ms. Liz Welch, Executive Director
Department of Finance and Administration
501 North West Street
Suite 1301, Woolfolk Building
Jackson, Mississippi 39201

Ladies and 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, 2019. 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 "Shad White", is written over a large, loopy flourish.

Shad White
State Auditor

enclosures

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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, 2019

MISSISSIPPI



Shad White

State Auditor

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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, 2019, and the related notes to the financial statements which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 20, 2019. 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 State Agencies Self-Insured Workers' Compensation Trust Fund, and selected funds at the Department of Marine Resources, the Department of Employment Security, the Mississippi Development Authority, and the Department of Public Safety which, in the aggregate, represent 4% and 1%, 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, the Department of Finance and Administration State Life and Health Plan, and the Unemployment Compensation Fund which, in the aggregate, represent 98% and 97%, 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 State Agencies Self-Insured Workers' Compensation Trust Fund, and selected funds at the Department of Marine Resources, the Department of Employment Security, the Mississippi Development Authority, and the Department of Public Safety which, in the aggregate, represent 4% and 1%, respectively, of the assets and revenues of the General Fund;
 - Proprietary Funds
 - the Port Authority at Gulfport, the Mississippi Prepaid Affordable College Tuition Program, the Department of Finance and Administration State Life and Health Plan, and the Unemployment Compensation Fund which are considered major enterprise funds;
 - Aggregate Remaining Funds
 - Nonmajor enterprise funds for AbilityWorks, Inc. within the Department of Rehabilitation Services and the Veterans' Home Purchase Board;
 - Other Employee Benefits Trust Fund – State Life and Health Insurance Plan;
 - the Pension Trust Funds;
 - the Private-Purpose Trust Funds of the Mississippi Affordable College Savings Program;
- all of which represent 100% and 100%, 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 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 deficiencies described in the accompanying "Schedule of Findings and Questioned Costs: Part 2 – Financial Statement Findings" as items 2019-001, 2019-002, 2019-003, 2019-004, 2019-005, 2019-006, 2019-008, 2019-012, 2019-014, 2019-015, and 2019-017 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 deficiencies described in the accompanying "Schedule of Findings and Questioned Costs: Part 2 – Financial Statement Findings" as items 2019-007, 2019-009, 2019-010, 2019-011, 2019-013, and 2019-016 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.

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 findings 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.

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is fluid and cursive, with the first name being the most prominent.

Stephanie C. Palmertree, CPA, CGMA
Director, Financial and Compliance
Audit Division

Jackson, Mississippi
February 28, 2020

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



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STATE OF MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

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?

___ yes X no

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



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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

PART 2 – FINANCIAL STATEMENT FINDINGS

<u>Finding Number</u>	<u>Finding and Recommendation</u>
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DEPARTMENT OF EDUCATION

SIGNIFICANT DEFICIENCY

2019-010	<u>Controls Should Be Strengthened over MAGIC Segregation of Duties, Business Role Assignments and Quarterly Security Certification Process.</u>
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Repeat Finding	No
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Criteria	<p><i>The Internal Control – Integrated Framework</i>, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the <i>U.S. Government Accountability Office Standards for Internal Control in the Federal Government</i> (Green Book) specify that a satisfactory control environment is only effective when control activities exist, such as proper segregations of duties. 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.</p>
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Additionally, the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual section 30.60.00 requires security roles in the Mississippi Accountability System for Government Information and Collaboration (MAGIC) to be assigned to an employee based on his or her job duties, and that security roles be reviewed quarterly by agencies to ensure duties are properly segregated. The Department of Finance and Administration (DFA) issued the *MAGIC Roles and Definitions* policy document to inform agencies of roles that should be separated to reduce conflicts as well as other role requirements.

Condition	<p>The Mississippi Department of Education (MDE) submitted certifications to DFA quarterly during state fiscal year 2019 stating that it was in compliance with MAGIC security policies. Upon review of the security roles assigned, the agency had conflicts to assigned duties, as detailed below.</p>
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During our review of MAGIC security roles at MDE during fiscal year 2019, we noted:

- Ten security role conflicts between accounts payable and accounts receivable functions;
- Three roles assigned to MDE personnel that are not allowed for the agency;
- Two roles required to be assigned at the agency but were not;
- Lack of effective review of security role information that was certified by the agency.

Cause	The agency did not properly review and monitor MAGIC security roles assigned to employees.
Effect	Failure to properly segregate duties and limit user access among agency personnel greatly increases the risk of fraud, misappropriation of assets, inappropriate changes to data or files, and unauthorized activity which can result in material misstatements of financial statements.
Recommendation	We recommend the Mississippi Department of Education strengthen controls over MAGIC security access and ensure that roles are properly assigned and duties are segregated.
Views of Responsible Officials	Management at the Department of Education concurs with the finding. See additional comments in the Corrective Action Plan on page 31 of this audit report.

DEPARTMENT OF FINANCE AND ADMINISTRATION

MATERIAL WEAKNESS

2019-014 Strengthen Controls Over the Change Logs of the Statewide Payroll and Human Resource System (SPAHRS).

Repeat Finding Yes; 2018-008; Material Weakness finding.

Criteria 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. Proper audit trail documentation also includes evidence of transactions that may have been voided, deleted, or changed after approval and initiation. A “change log” should also be maintained that summarizes any changes, especially those in the production environment. Periodic reconciliations between the change log and a list of approved changes should be performed to ensure all changes have been approved and authorized.

Condition During testwork performed for fiscal year 2019, we noted the following:

- Security logging was not enabled in the Natural Security log settings;
- Reconciliations between approved changes and changes occurring in the change log are not being performed.

Cause There are inadequate controls surrounding SPAHRS security logging.

Effect 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 Natural Security logging functionality and strengthen controls over the periodic review of such logs.

Views of Responsible Officials Management at the Department of Finance and Administration concurs with the finding. See additional comments in the Corrective Action Plan on page 33 of this audit report.

2019-015 The State of Mississippi Should Require Chief Fiscal Officers of State Agencies to hold Minimum Accounting Qualification and Attend Mandatory Training.

Repeat Finding Yes; 2016-012, 2017-006, and 2018-024; Material Weakness Findings.

Criteria *Section 7-7-3 Miss. Code Ann. (1972)* states that the State Fiscal Officer (as defined by *Section 21-104-6 Miss. Code Ann. (1972)* as the Executive Director of the

Department of Finance and Administration shall conduct training seminars on a regular basis to ensure that agencies have access to persons proficient in the correct use of the statewide accounting system.

Section 7-7-211 Miss. Code Ann. (1972) authorizes the State Auditor to establish training course and programs for the personnel of the various state and local governmental entities. These courses shall include, but are not limited to, topics on internal control, purchasing and property, governmental accounting and financial reporting, and internal auditing.

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 there is a commitment to competence that demonstrates a commitment to retain competent employees. This principle of competency can be achieved through analysis of skills required for positions, training and development training.

Condition

During testing for fiscal year 2019, we noted, through inquiry and observation, that the overall expertise level of accounting staff in various state agencies was not consistent, and that job requirements often did not specify applicants hold any specific accounting or governmental knowledge. We also noted that, although the Department of Finance and Administration (DFA) held GAAP conversion and accounting training courses to aid state agencies in compiling financial information, it was not a mandatory requirement and often agency personnel did not attend. Likewise, qualification and skill requirements were not consistently applied to Chief Financial Officers throughout the various state agencies.

The lack of overall understanding and application of proper accounting standards required the centralized accounting function of the state, DFA, to prepare significant adjusting and reclassification entries in order to prevent material misstatement. While the majority of entries would not have materially misstated accounts individually, in the aggregate, without adjustment, the financials would have been materially misstated.

Cause

Lack of consistently applied agency qualifications for accounting personnel.

Effect

The failure of the State to hire and retain competent staff could result in material misstatement of the financial statements.

Recommendation

We recommend the Department of Finance and Administration implement mandatory training sessions for accounting personnel and Chief Fiscal Officers. Additionally, we recommend the State of Mississippi implement minimum qualifications for Chief Financial Officers.

Views of Responsible Officials

Management at the Department of Finance and Administration concurs with the finding. See additional comments in the Corrective Action Plan on page 34 of this audit report.

SIGNIFICANT DEFICIENCY AND IMMATERIAL NONCOMPLIANCE

2019-016	<u>Strengthen Controls Over the Vendor Master File and Issuance of Payments to One Time Vendors to Ensure Compliance with Internal Revenue Service Regulations.</u>
Repeat Finding	Yes; 2015-032, 2016-016, 2017-003, and 2018-032; Significant Deficiency Findings.
Criteria	<p>The Department of Finance and Administration (DFA) is responsible for final approval of certain types of warrants issued by the State of Mississippi. These 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.</p> <p>Occasionally, warrants need to be issued on a singular basis to vendors. These "one-time vendor" warrants are assigned a default vendor number by agency 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.</p> <p>In order to comply with <i>The Code of Laws of the United States of America</i> (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 "1099 vendor accounts" and will not approve warrants to any "one-time vendor" when these general ledger accounts are expensed.</p>
Condition	<p>During testwork performed for the fiscal year 2019 audit, we noted the following exceptions:</p> <ul style="list-style-type: none">• 1,963 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 including W-9 Information.
Cause	DFA does not have adequate controls over the review of vendor master data.
Effect	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.

Views of Responsible Officials Management at the Department of Finance and Administration acknowledges the finding. See additional comments in the Corrective Action Plan on page 36 of this audit report.

**DEPARTMENT OF HEALTH – DRINKING WATER SYSTEMS IMPROVEMENTS
REVOLVING LOAN FUND**

MATERIAL WEAKNESS

2019-008 Strengthen Controls Over the Cutoff of Loan Related Receivables and Payables.

Repeat Finding No

Criteria Management is responsible for establishing and maintaining effective internal control over financial reporting, including the basic financial statements and related notes to the financial statements. 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.

Condition Drinking Water Systems Improvements Revolving Loan Fund (Fund) procedures for the proper cutoff of loan related receivable and payables incurred before year-end but paid either during or after the lapse period need to be established.

Cause Although Fund internal control procedures in place at year-end include a process for the identification and recording of accruals, the process did not include a step to fully consider those items charged into general ledger account 67998000: Prior Year Expense during the subsequent fiscal year.

Effect As a result, an audit adjustment was proposed and recorded related to the cutoff of these loan related receivables and payables.

Recommendation We recommend management expand the year-end close process or the GAAP Packet preparation process over the cutoff of loan related receivables and payables to include an evaluation of those items charged to general ledger account 67998000: Prior Year Expense in the subsequent fiscal year.

**Views of Responsible
Officials** Management at the Department of Health – Drinking Water Systems Improvements Revolving Loan Fund concurs with the finding. See additional comments in the Corrective Action Plan on page 39 of this audit report.

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DEPARTMENT OF HUMAN SERVICES

MATERIAL WEAKNESS

2019-012 Controls Should Be Strengthened to Ensure Management’s “Tone at the Top” Does Not Allow for the Circumventing of Policies, Procedures, State Law, and/or Federal Regulations.

Repeat Finding No

Criteria The *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the *U.S. Government Accountability Office Standards for Internal Control in the Federal Government* (Green Book) specify that a satisfactory control environment is only effective when there is a commitment to integrity and ethical values. This principle of “tone at the top” management serves as the foundation of all other components of internal control.

Condition During fiscal year 2019, the Executive Director and several members of the Executive Management Team at the Mississippi Department of Human Services (MDHS) threatened and intimidated employees regarding pervasive and widespread fraud, waste, and abuse. Employees operated under widespread fear of retaliation for questioning the legality or appropriateness of any directive from the Executive Director or his team. Employees were aware of possible fraudulent activities and inappropriate actions regarding the Temporary Assistance of Needy Families (TANF) subgrantees, and did not report such activities to federal or state auditors when questioned. When auditors inquired why individuals did not confide these suspicions to those charged with governance or auditors, employees stated that they were scared of immediate termination or additional retaliation.

Additionally, the Executive Director ceased the TANF State Plan approved method of procuring subgrantee services based on an independent scoring rubric and process and replaced the existing procurement method with a system where the director unilaterally decided when grants were awarded and for how much they were funded. Due to this change, one subgrantee’s funding was increased from approximately \$2 million to \$20 million over three years.

The Executive Management Team in place during fiscal year 2019 did not exhibit appropriate “tone at the top” leadership. Management not only allowed, but also participated in, significant fraud, waste, and abuse of TANF funds. These practices not only severely limited resources that should have been available to those qualifying for TANF assistance, but could cause clawbacks of federal resources. Additionally, misuse of TANF funds, specifically intentional misuse of funds, can trigger penalty clauses as outlined in Uniform Grant Guidance. These penalty clauses could either be repayment of funds, or reduction in State assistance amounts in subsequent quarters.

Examples of fraud, waste and abuse include:

- Employees from the Office of Monitoring within MDHS were pulled from subgrantees when issues were discovered in order to conceal questioned costs;
- Exorbitant conferences were held for MDHS employees;
- Fees and expenses for contractors were paid when contracts required contractor to pay for all expenses;
- First Class airfare and extensive travel expenses were paid for members of the Executive Management Team and non-employees;
- Subgrantees were encouraged to use specific vendors – specifically members of the Executive Director’s family.

The Executive Director in place during the fiscal year under audit resigned his post in July 2019, and a new Executive Director was appointed as of August 2019. The new Executive Director replaced many members of the Executive Management Team and began implementing new policies. These new policies have not been audited as of the date of this report as they relate to the subsequent fiscal year.

Cause	Executive Management at MDHS did not possess or encourage ethical business practices or appropriate grant management.
Effect	Without ethical leadership and an appropriate “tone at the top”, fraud, waste, and abuse can occur and lead to the intentional misuse of federal funds. The misuse of federal funds can cause a reduction in federal assistance for the State of Mississippi.
Recommendation	We recommend Management at the Mississippi Department of Human Services evaluate all policies and procedures to ensure ethical and appropriate business practices. Additionally, we recommend employees and management undergo training classes on exhibiting appropriate “tone at the top” leadership and adopting an ethical work culture.
Views of Responsible Officials	Management at the Department of Human Services concurs with the finding. See additional comments in the Corrective Action Plan on page 41 of this audit report.

SIGNIFICANT DEFICIENCY

2019-013	<u>Controls Should Be Strengthened over MAGIC Segregation of Duties, Business Role Assignments and Quarterly Security Certification Process.</u>
Repeat Finding	Yes; 2018-034; Significant Deficiency Finding
Criteria	The <i>Internal Control – Integrated Framework</i> published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the <i>U.S. Government Accountability Office Standards for Internal Control in the Federal Government</i> (Green Book) specify that a satisfactory control environment is only effective when control activities exist, such as proper segregation of duties.

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.

Additionally, the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual section 30.60.00 requires security roles in the Mississippi Accountability System for Government Information and Collaboration (MAGIC) to be assigned to an employee based on his or her job duties, and that security roles be reviewed quarterly by agencies to ensure duties are properly segregated. The Department of Finance and Administration (DFA) issued the *MAGIC Roles and Definitions* policy document to inform agencies of roles that should be separated to reduce conflicts as well as other role requirements.

Condition

The Mississippi Department of Human Services (MDHS) submitted certifications to the Department of Finance and Administration (DFA) quarterly during state fiscal year 2019 stating that it was in compliance with MAGIC security policies. Upon review of the security roles assigned, the agency had conflicts to assigned duties, as detailed below.

During our review of MAGIC security roles at MDHS during fiscal year 2019, we noted:

- Thirty-two security role conflicts between accounts payable and accounts receivable functions;
- Sixteen instances of roles assigned to MDHS personnel that have no matching security role;
- Seven instances of roles assigned to MDHS personnel that are not allowed for the agency;
- Seven instances in which roles were assigned to MDHS personnel without the required oversight roles being assigned;
- One instances in which roles were still assigned to employees after their employment ended with the agency;
- Lack of effective review of information that was certified by agency.

Cause

The agency did not properly review and monitor MAGIC security roles assigned to employees.

Effect

Failure to properly segregate duties and limit user access among agency personnel increases the risk of misappropriation of assets, inappropriate changes to data or files, and unauthorized activity which can result in material misstatements of financial statements.

Recommendation

We recommend the Mississippi Department of Human Services strengthen controls over MAGIC security access and ensure that roles are properly assigned, duties are segregated, and separated employees have their access removed in a timely manner.

Views of Responsible**Officials**

Management at the Department of Human Services concurs with the finding. See additional comments in the Corrective Action Plan on page 42 of this audit report.

DEPARTMENT OF PUBLIC SAFETY

SIGNIFICANT DEFICIENCY

2019-011	<u>Strengthen Controls over the Purchase of Capital Assets.</u>
Repeat Finding	No
Criteria	Management should have internal control procedures in place to ensure that capital asset transactions are recorded and paid for in each Fund timely and appropriately.
Condition	Certain capital asset expenses were purchased in one fund and an erroneous entry was recorded to a separate fund incorrectly.
Cause	Two vehicles were originally accounted for and recorded utilizing a purchase order in a separate fund of the Department. An additional erroneous journal entry was made to fund 2271100000 to also record the assets.
Effect	This resulted in \$155,044 of the capital asset expenditures being incorrectly recorded in fund 2271100000 and an adjusting journal entry to correct the differences.
Recommendation	Management should institute a process to reconcile payments with outstanding purchase orders and the funds in which these entries are recorded. This will ensure that management reports are more accurate throughout the fiscal year, and lessen issues that may occur in the future.
Views of Responsible Officials	Management at the Department of Public Safety concurs with the finding. See additional comments in the Corrective Action Plan on page 43 of this audit report.

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DEVELOPMENT AUTHORITY

MATERIAL WEAKNESS

2019-017	<u>Strengthen Controls over Financial Reporting.</u>
Repeat Finding	No
Criteria	The entity is required to establish and maintain effective internal control over financial reporting to ensure that the information is reliable and accurate.
Condition	The prior year financial statements reported loan receivables for five separate funds based on the modified accrual basis instead of full accrual basis. As a result, the total fund balance at July 1, 2018 was understated by \$183,546,047.
Cause	The correction was due to an error that was not identified in a timely manner.
Effect	The beginning fund balance for the five related funds were materially understated.
Recommendation	We recommend that Mississippi Development Authority review current procedures related to the review of prepared financial statements, and enhance procedures (as deemed necessary) to ensure that the review identify errors in a timely manner.
Views of Responsible Officials	Management at the Development Authority concurs with the finding. See additional comments in the Corrective Action Plan on page 45 of this audit report.

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OFFICE OF THE STATE TREASURER

SIGNIFICANT DEFICIENCY

2019-009	<u>Strengthen Controls to Ensure Reports Issued Are Correct for End User.</u>
Repeat Finding	No
Criteria	<i>The Internal Control – Integrated Framework</i> published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when information and communication such as reports, identifies, captures, and communicates pertinent information in a form and timeframe that enables people to carry out their responsibilities.
Condition	<p>During review of “Equity in Internal Investment Fair Market Value Adjustment”, auditor noted support from QED (Treasury’s Internal Investment Software) did not agree to confirmed amounts. Inquiry with Treasury Investment Director noted the third party used to maintain market information for treasury internal system (QED) was not properly updating the system to reflect market values. The initial report showed a market loss of \$21,263,911.52; however, the confirmed amounts showed a market gain of \$3,511,324.57.</p> <p>Department of Finance and Administration (DFA) will adjust equity in internal investment on a yearly basis to market value of investments. Correct fair market value was not used in adjustment of asset account equity in internal investment pool. This resulted in an understatement of \$24,775,236.09 to the statewide equity in internal investment pool.</p>
Cause	Agency worked with a third party to correct internal systems to display market values properly; however, agency did not provide corrected copies of report to users.
Effect	Failure to reissue corrected reports in a timely manner resulted in an erroneous entry into the State Accounting System MAGIC. Equity in Internal Investment was understated for fiscal year 2019 and required an audit adjustment.
Recommendation	We recommend the Office of the State Treasurer strengthen controls to ensure reports issued are correct for end user.
Views of Responsible Officials	Management at the Office of the State Treasurer concurs with the finding. See additional comments in the Corrective Action Plan on page 47 of this audit report.

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PRISON INDUSTRIES CORPORATION

MATERIAL WEAKNESS

2019-001	<u>Controls Related to Segregation of Duties Should Be Strengthened.</u>
Repeat Finding	Yes; 2018-036
Criteria	A financial reporting system requires appropriate segregation of duties to ensure that all relevant information is processed in a timely manner and appropriately assimilated into the financial reporting process.
Condition	Certain deficiencies in internal control result from a lack of segregation of duties.
Cause	Due to the limited number of accounting personnel working for the Corporation, certain critical accounting duties have been combined and assigned to employees based on availability. During the year ended June 30, 2019, the majority of the accounting duties were performed by one individual. However, the Controller prepares and pays payroll with no documented review. Journal entries prepared by the Controller had no evidence of review either. The accounts receivable clerk handles both billings and collections and manages the customer master file. Similarly, the accounts payable clerk handles both disbursements and manages the supplier master file.
Effect	Inadequate segregation of duties prevents the Corporation from safeguarding its assets.
Recommendation	To the extent possible, duties should be segregated to serve as a check and balance to maintain the best control system possible.
Views of Responsible Officials	Management at the Prison Industries Corporation concurs with the finding. See additional comments in the Corrective Action Plan on page 49 of this audit report.

2019-002	<u>Controls Related to Maintenance of Source Documents Should Be Strengthened.</u>
Repeat Finding	Yes; 2018-037; Material Weakness Finding.
Criteria	A financial reporting system requires an appropriate review function to ensure that all relevant information is processed correctly and appropriately assimilated into the financial reporting process.
Condition	There were instances during our audit whereby source documentation requested was not readily available. Many of the inventory cost invoices could not be located timely. Additionally, certain travel documentation tested did not include attached

receipts, description of the expense or other documentation to substantiate business purpose.

Cause	The company does not have adequate processes to ensure source documents are retained and filed in a readily accessible location.
Effect	Inadequate controls over review and maintenance of source documentation could result in inaccurate accounting information.
Recommendation	We recommend policies be strengthened so that review functions and business purposes are documented and source documentation is better maintained.
Views of Responsible Officials	Management at the Prison Industries Corporation concurs with the finding. See additional comments in the Corrective Action Plan on page 49 of this audit report.

2019-003 Controls Over Inventory Should Be Strengthened.

Repeat Finding	Yes; 2018-038; Material Weakness Finding.
Criteria	Inventories held by the Corporation are an important part of its overall financial reporting system and requires appropriate controls over pricing, existence and obsolescence.
Condition	During our inventory cost testing, Differences were noted whereby certain costs used to extend the inventory did not agree with recent inventory prices. Also, some extensions on the June 30, 2019 inventory valuation by department were not mathematically correct. It was also noted that some inventory source documents are located at remote locations rather than the administrative central office.
Cause	The Corporation has a small staff and lacks entity level control structure that is needed to ensure that inventory is accounted for accurately.
Effect	Inadequate controls over the inventory control process could result in material misstatements.
Recommendation	We recommend policies be strengthened so that deficiencies noted above do not reoccur. The Corporation should implement policies, procedures and a review process to ensure inventory is accurately calculated and reported.
Views of Responsible Officials	Management at the Prison Industries Corporation concurs with the finding. See additional comments in the Corrective Action Plan on page 50 of this audit report.

2019-004	<u>Controls Related to Property Control System Should Be Strengthened.</u>
Repeat Finding	Yes; 2018-039; Material Weakness Finding.
Criteria	Fixed assets held by the Corporation are an important part of its overall financial reporting system and requires appropriate controls over existence and potential impairment.
Condition	The Corporation's subsidiary fixed asset schedules were never reconciled back to the adjusted depreciation schedules as of the June 30, 2018 audit. The June 30, 2018 audit entries were recorded on the general ledger without properly reconciling back to the fixed asset subsidiary, thereby resulting in discrepancies between the two.
Cause	This was an oversight by the accounting staff due to the lack of controls because of the size of the staff.
Effect	This caused delays in the current audit due to beginning balances per the fixed asset subsidiary having to be reconciled. Inadequate controls over property could result in material misstatements.
Recommendation	We recommend policies be implemented to reconcile back the fixed asset subsidiary records back to the general ledger for agreement.
Views of Responsible Officials	Management at the Prison Industries Corporation concurs with the finding. See additional comments in the Corrective Action Plan on page 50 of this audit report.

2019-005	<u>Controls Related to Pension and Postemployment Benefit Liability Should Be Strengthened.</u>
Repeat Finding	Yes; 2018-040; Material Weakness Finding.
Criteria	Pension and postemployment benefit liabilities and related deferred inflows and outflows held by the Corporation are an important part of its overall financial reporting system and requires appropriate controls over existence and obsolescence.
Condition	To a large extent, the Corporation relies on its external auditors to calculate the Corporation's allocation of pension and postemployment benefit liabilities. However, the external auditor cannot be considered part of an entity's system of control. Therefore, the adjustments calculated and proposed to the Corporation by the external auditor represent deficiencies in internal control.
Cause	The Corporation has a small staff and lacks the experience needed to ensure that these calculations are accounted for accurately.

Effect	Inadequate controls over pension and postemployment benefit liabilities could result in material misstatements.
Recommendation	We recommend the Corporation staff prepare the pension and postretirement calculations in the future and post the adjustments to these accounts prior to the audit.
Views of Responsible Officials	Management at the Prison Industries Corporation concurs with the finding. See additional comments in the Corrective Action Plan on page 50 of this audit report.

2019-006 Controls Related to Reconciliations, Review, and Close-out Process for Financial Reporting Should Be Strengthened.

Repeat Finding	Yes; 2018-041; Material Weakness Finding.
Criteria	A financial reporting system requires entity level controls to be constructed so reconciliations are prepared to support trial balance amounts, and an appropriate review function be put in place to ensure that all relevant information is accumulated correctly for general ledger close-out and financial reporting.
Condition	To a large extent, the Corporation relies on its external auditors as a buffer for corrections that are needed to the general ledger accounts. As part of the audit, in addition to other areas noted previously, adjustments to receivables, revenue, bad debts, prepaid expenses, accounts payable, and accrued leave were necessary to present the Corporation's financial statements in conformity with generally accepted accounting principles. However, the external auditor cannot be considered part of an entity's system of control. Therefore, the adjustments calculated and proposed to the Corporation by the external auditor represent deficiencies in internal control.
Cause	The Corporation has a small staff and lacks entity level control structure that would be needed to ensure that comprehensive reconciliations are prepared, review processes are completed, and financial statements prepared in accordance with accounting principles generally accepted in the United States.
Effect	Inadequate controls over reconciliations, review, and the close-out process for financial reporting could result in material misstatements.
Recommendation	We recommend the Corporation implement policies to segregate as many accounting functions as possible.
Views of Responsible Officials	Management at the Prison Industries Corporation concurs with the finding. See additional comments in the Corrective Action Plan on page 51 of this audit report.

SIGNIFICANT DEFICIENCY

2019-007	<u>Controls Related to Information Technology General Controls (ITGC) Should Be Strengthened.</u>
Repeat Finding	Yes; 2018-042; Significant Deficiency Finding.
Criteria	Information reporting systems are a critical component of the overall financial reporting system. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed a model for evaluating controls that has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.
Condition	During the course of our audit, we noted certain deficiencies related to the information technology environment. The Corporation's servers were not maintained in a secure environment. The server room was not locked and lacked the expected environmental controls such as a dedicated air conditioning unit, temperature monitoring and backup generator, although an uninterruptible power supply (UPS) is used. The Corporation should revise its practice to ensure proper safeguarding of its servers and data. Certain ITGC responsibilities are contracted out to a third party. Nevertheless, the Corporation is still responsible for services provided by the third party and determining that its data is secure. From a broader perspective, we noted the Corporation did not have formally documented ITGC policies governing the security, availability, processing integrity, confidentiality and privacy of data. The Corporation did move to a cloud-based backup system, however the other issues as mentioned above had not been corrected as previously noted in the prior year audit.
Cause	The Corporation has a small staff and outsources key functions of its technology environment controls, with limited supervision.
Effect	Inadequate ITGC controls and policies could result in a loss of accounting information or interruption of the operations.
Recommendation	We recommend the Corporation enter into a written agreement with the third party and define how the third party is to secure its data, in addition to identifying measurable metrics to evaluate the services delivered by the third party service provider. We recommend the Corporation develop and implement a comprehensive set of ITGC policies. The Corporation should work with its outsourced provider to develop and implement policies to ensure all data is secure and move forward with a cloud based system.

**Views of Responsible
Officials**

Management at the Prison Industries Corporation concurs with the finding. See additional comments in the Corrective Action Plan on page 51 of this audit report.

Schedule of Findings and Questioned Costs:
Part 3
Management Response



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MISSISSIPPI DEPARTMENT OF EDUCATION

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

FINANCIAL AUDIT FINDINGS

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

December 31, 2019

Dear Mr. White:

In accordance with your correspondence dated December 17, 2019, the Mississippi Department of Education (MDE) is providing the following response and corrective action plan for the financial audit finding for the fiscal year ending June 30, 2019.

AUDIT FINDING:

2019-010 Controls Should Be Strengthened over MAGIC Segregation of Duties, Business Role Assignments and Quarterly Security Certification Process

Response: The agency concurs with this finding.

Corrective Action Plan:

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

All instances noted have been reviewed and corrected. The MAGIC Security Contact will meet with the Director of Accounting each quarter to review current role assignments in order to ensure that these violations do not occur again.

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

Tamala Matthews, MAGIC Security Contact

C. Anticipated completion date for correction action.

Immediately

If you have any questions, please contact Mr. John Kraman at 601-359-3487.

Sincerely,

A handwritten signature in dark ink, appearing to read "Carey M. Wright". The signature is fluid and cursive, with the first name "Carey" being more legible than the last name "Wright".

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



STATE OF MISSISSIPPI
GOVERNOR TATE REEVES

DEPARTMENT OF FINANCE AND ADMINISTRATION

February 11, 2020

FINANCIAL AUDIT FINDINGS

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

In reference to your letter dated December 20, 2019, we submit the following responses and corrective action plans to the financial audit findings for the Department of Finance and Administration (DFA) for the fiscal year ended June 30, 2019.

AUDIT FINDINGS:

MATERIAL WEAKNESS

Finding Number

Finding Description

2019-014

Strengthen Controls Over the Change Logs of the
Statewide Payroll and Human Resource System.

Response:

We acknowledge the finding.

Turning on the Natural Security logs would require a major upgrade to SPAHRS and would introduce functionality that has never been utilized. This would be a major change with high risks to consider. DFA/MMRS is in the process of planning the HR/Payroll implementation of MAGIC and does not

want to take on the risk of doing a major change to SPAHRS at this time.

The quarterly security verification/reconciliation process requires agencies to verify/reconcile all SPAHRS security access for their agency. This verification includes new and updated SPAHRS Security requests. Additionally, when forms are received by DFA/MMRS, the forms are reviewed to make sure a signature was obtained providing a record of agency acknowledgement that the access requested is appropriate. The requested updates are made in SPAHRS and the forms are electronically signed and filed in SharePoint. The MMRS Security Supervisor verifies that the security acknowledgement forms are signed by the agency security contact and all documentation is accurate.

Corrective Action:

- A. DFA is beginning the MAGIC Phase II Implementation.
- B. Michael Gonzalez is the contact person for this corrective action.
- C. The anticipated completion date of Phase II is July 1, 2022.
- D. N/A

2019-015

Require Chief Fiscal Officers of State Agencies to Hold Minimum Accounting Qualifications and Attend Mandatory Training

Response:

We acknowledge this finding.

The Department of Finance and Administration (DFA) is the primary agency responsible for state government financial and administrative operations, and we fully accept and embrace the magnitude of that responsibility. However, while DFA is the executive branch control agency over governmental accounting and financial reporting, and in particular, the completion of the annual comprehensive annual financial report, we rely heavily on the cooperation and

input of every other state agency to successfully accomplish that task.

We acknowledge that Section 7-7-3 of Miss. Code Ann. (1972) requires DFA to conduct training seminars on a regular basis to ensure that agencies have access to persons proficient in the correct use of the state accounting system. Before implementation of the new statewide system and since that time, we have provided class training, one-on-one personalized training and detailed assistance via the call center to agency personnel to help them understand the processes required for daily workflow. We have training material, work instructions and job aids available on the internet that are easily accessible. While we have clearly stated that these training sessions are necessary, we continue to have agencies that do not attend.

The finding specifically calls into question the lack of qualifications and skill requirements of agency accounting personnel, and specifically mentions the lack of qualified personnel serving as Chief Fiscal Officers. While we have the responsibility to provide systems to facilitate the financial reporting and operations of the state and to provide training to employees that use these systems, we do not have the oversight of the hiring or selection of agency employees. Hiring of qualified employees is the responsibility of each state agency head.

Corrective Action Plan

- A. The audit finding recommendation is for DFA to implement mandatory training sessions for accounting personnel and chief fiscal officers. DFA will continue to provide training opportunities for accounting personnel and chief fiscal officers, and will pursue and provide additional training as funding allows.
- B. The contact person responsible for this corrective action is Steven McDevitt.
- C. The corrective action will be implemented during fiscal year 2020.

D. N/A

Finding Number

Finding Description

2019-016

The Department of Finance and Administration should strengthen controls over the vendor master file and issuance of payments to One Time Vendors to ensure compliance with Internal Revenue Service Regulations.

Response:

We acknowledge this finding.

To do business with the State of Mississippi, either the agency or the vendor enters the vendor's information into a portal on the DFA website and then the agency releases that information into MAGIC. The vendor is imported into MAGIC in a blocked status. The Vendor Master Data Team unblocks the vendor upon receipt of the W9. The W9 is reviewed for completeness, attached to the vendor file in MAGIC, and the vendor is unblocked.

Each agency has been assigned their own one-time vendor number. Some agencies have multiple one-time vendor numbers for different purposes. It is the responsibility of the executive leadership and fiscal management of each agency to use these one-time vendor numbers in an appropriate manner in accordance with the rules and regulations set by DFA.

Corrective Action Plan

A. The audit finding recommendation is for DFA to 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. DFA does not pre-audit payments under \$1,000.00, therefore DFA has no control over the agencies' use of the one-time vendor code for payments under \$1,000.00. DFA currently conducts post-audit reviews of those payments under \$1,000.00, and notifies the agencies of any violations that are noted.

Corrective Action: DFA will implement periodic

reviews of the vendor master data to test that a W9 is attached to the vendor file in MAGIC.

- B. The contact person responsible for this corrective action is Steven McDevitt.
- C. The corrective action will be implemented during fiscal year 2020.
- D. N/A

Sincerely,

A handwritten signature in blue ink that reads "Liz Welch". The signature is written in a cursive, flowing style.

Liz Welch
Interim Executive Director

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MISSISSIPPI STATE DEPARTMENT OF HEALTH

FINANCIAL AUDIT FINDINGS

December 5, 2019

Honorable Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

We have reviewed the audit finding below in reference to the Drinking Water Systems Improvements Revolving Loan Fund 2019 fiscal year audit. Listed below is our individual response and plan for corrective action:

Audit Finding:

2019-008 Management is responsible for establishing and maintaining effective internal control over financial reporting, including the basic financial statements and related notes to the financial statements.

Response: The agency concurs with this finding.

Corrective Action: The GAAP submission deadline was August 16, 2019 and the invoices were not submitted to Finance in sufficient time to be included in the accrual entry. The invoices were submitted to Finance for processing either two days before the deadline or seven days after the deadline. In addition, after the lapse period ended (August 31st), the Department of Finance and Administration would not allow us to process additional accrual entries since the Treasury funds were being audited. The agency will continue to evaluate the general ledger account in the year-end process and make adjustments as allowed.

Name of contact person responsible for corrective action: Sharon Dowdy

Anticipated completion date of corrective action: June 30, 2020

Should you have any questions regarding our response or corrective action plan, please feel free to contact Sharon Dowdy, 601-576-7359.

Sincerely,
DocuSigned by:

Thomas Dobbs

Thomas E. Dobbs III, M.D., M.P.H.
State Health Officer

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STATE OF MISSISSIPPI
Phil Bryant, Governor
DEPARTMENT OF HUMAN SERVICES
Christopher Freeze
Executive Director

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P.O. Box 956
Jackson, Mississippi 39205-0956

January 14, 2020

Dear Mr. White:

Enclosed for your review is the agency's official response and correlating corrective action plans to the financial audit finding in the "Financial Audit Management Report" as outlined in the Mississippi Department of Human Services financial audit performed for the Fiscal Year 2019.

FINANCIAL AUDIT FINDINGS

2019-012

Controls Should Be Strengthened to Ensure Management's "Tone at the Top" Does Not Allow for the Circumventing of Policies, Procedures, State Law, and/or Federal Regulations.

MDHS Response: MDHS agrees that controls should be strengthened to ensure a "Tone at the Top" style does not allow for circumventing policies, procedures, State Law and/or Federal regulations.

Corrective Action Plan: MDHS is in agreement that during the audit period, the prior Executive Director and a few supervisors under the prior Executive Director's direction did not exhibit appropriate "tone at the top" leadership. We agree the culture created and promulgated by the prior Executive Director led to Temporary Assistance of Needy Families (TANF) monies being unilaterally and arbitrarily distributed without proper oversight or review. In order to maintain this posture, the prior Executive Director terminated or retaliated against employees which furthered the problems.

However, senior members of the Executive Management team were also responsible for bringing the prior Executive Director's actions to light in June 2019. Since the prior Executive Director's actions had been on-going during his tenure, had the senior members of the team not brought his actions to light, the probability was high the waste and abuse of funds would not have been discovered during routine audits or reviews. The MDHS Executive Leadership currently in place has worked closely with OSA on this matter in order to ensure a complete and thorough examination.

After the prior Executive Director left MDHS employment, a new Executive Director was appointed and leadership changes were made to address the “tone at the top” culture as well as the effective and efficient use of state and federal funds. Specifically, MDHS no longer employs the select individuals implicated in this matter, has released and awarded Request for Proposals concerning the TANF block grant, and has revised the subgrant manual to ensure additional measures of internal controls are in place to prevent such from occurring the future. All of these actions have increased the transparency and accountability at MDHS.

Additionally, the TANF state plan, which governs all program expenditures as approved by the Administration for Children and Families and was the controlling document during State Fiscal Year 2019 did not require a competitive procurement be conducted. Further, the TANF state plan encouraged the use of subgrantees in the administration of TANF dollars and service of MDHS clients in need of assistance.

The TANF State Plan is currently under revision as part of the State’s Workforce Innovation Opportunity Act State Plan, in which TANF is a core partner, and a procurement process is being written into the new state plan that will be submitted in March of 2020. The state plan will incorporate the lessons learned as part of the prior Executive Director’s inappropriate activities.

2019-013

Controls Should Be Strengthened over MAGIC Segregation of Duties, Business Role Assignments and Quarterly Security Certification Process.

MDHS Response: MDHS is in agreement that it should strengthen its’ policies and procedures to ensure that duties and business role assignments in MAGIC are segregated.

Corrective Action Plan: MDHS currently reviews the role assignments quarterly to ensure segregation of duties and has made significance progress over prior year’s audit findings. Additionally, MDHS reviews employees that are no longer associated with the agency. MDHS will also notate individuals that have multiple roles and explain the rationale for same.

We appreciate the courtesy and professionalism demonstrated by Emily Mathis and her field staff throughout the audit. Should you have any questions regarding our responses or corrective action plan, please do not hesitate to contact Hadley Eisenberger, Inspector General, at 601-359-4939.

Respectfully,



ECF68C42498249E...
Christopher Freeze, Executive Director

CF: HE

pc: Jacob Black
David Barton
Hadley Gable Eisenberger



STATE OF MISSISSIPPI
TATE REEVES, GOVERNOR
DEPARTMENT OF PUBLIC SAFETY
MISSISSIPPI HIGHWAY SAFETY PATROL

FINANCIAL AUDIT FINDINGS

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

In response to the financial audit findings for the period ending June 30, 2019, the Mississippi Department of Public Safety is providing the following corrective action plan.

AUDIT FINDING(S):

2019-011 - Two vehicles were originally accounted for and recorded utilizing a purchase order in a separate fund of the Department. An additional erroneous journal entry was made to fund 2271100000 to also record the assets.

Response: Concur

Corrective Action Plan:

- A. Management has addressed internal accounting procedures with accounting staff. Additionally, an enhanced review process has been implemented to ensure all records are properly recorded.
- B. Mark Valentine
- C. Plan will be followed during next GAAP package reporting period.
- D. N/A

Sincerely,

A handwritten signature in blue ink that reads "Chris Gillard".

Chris Gillard, Colonel
Director, MHSP
Assistant Commissioner, DPS

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State of Mississippi

TATE REEVES
Governor

MISSISSIPPI DEVELOPMENT AUTHORITY

February 26, 2020

FINANCIAL AUDIT FINDINGS

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

The Mississippi Development Authority ("MDA") has received a financial audit finding for the fiscal year 2019 audit. MDA's response to the finding is below:

AUDIT FINDINGS:

2019-017 CORRECTION OF AN ERROR- LOAN RECEIVABLES

The prior year financial statements reported loan receivables for funds 3341R00000, 5341W00000, 634AE00000, 634RZ00000, and 634KE00000 based on modified accrual instead of full accrual. As a result, the total fund balance at July 1, 2018 was understated by \$183,546,047. The following is a summary of the restated beginning fund balance for funds 3341R00000, 5341W00000, 634AE00000, 634RZ00000, and 634KE00000.

	Fund 3341R00000	Fund 5341W00000	Fund 634AE00000	Fund 634RZ00000	Fund 634KE00000
Fund Balances, Beginning of Year	4,413,379.00	(32,790,708.00)	44,702,079.00	1,558,069.00	20,253,126.00
Prior Period adjustment	<u>67,931,950.00</u>	<u>3,992,959.00</u>	<u>60,367,800.00</u>	<u>7,074,061.00</u>	<u>44,179,277.00</u>
Restated Fund Balances, Beginning of Year	<u>72,345,329.00</u>	<u>(28,797,749.00)</u>	<u>105,069,879.00</u>	<u>8,632,130.00</u>	<u>64,432,403.00</u>

Response:

MDA concurs that the loan receivables for the aforementioned funds were reported incorrectly on the Financial statements of Revenue, Expenditures and changes in Fund Balance prepared by Carr, Riggs, & Ingram and the error was not discovered by the Accounting staff at the time of the review of the Audit report.

Corrective Action Plan:


To correct this issue, the MDA has implemented additional reviews by the Grants Supervisor to help ensure that the Statements of Revenues, Expenditures and Changes in Fund Balance of General Funds selected for Audit are stated correctly in the future. The understatement of revenue at July 1, 2018 was corrected during the 2019 Audit. Supervisor and Division Director Staff ensured that the revenues reported during the current grants were true and correct and free for error.



Brian Daniel, Accounting & Finance Director

2/26/20

Date:



Michael J. McGrevey, Interim Executive Director

2/26/2020

Date



OFFICE OF THE STATE TREASURER
LYNN FITCH
TREASURER

FINANCIAL AUDIT FINDINGS

January 8, 2020

The Honorable Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

In accordance with your correspondence dated December 18, 2019, the Office of the State Treasurer (OST) is providing the following response for the financial audit finding for the fiscal year ended June 30, 2019.

AUDIT FINDINGS:

2019-009 Strengthen Controls to Ensure Reports Issued Are Correct for End User

Response: We acknowledge this finding and will strengthen controls with the Department of Financial Administration (DFA) to ensure any information delivered for financial reporting purposes is finalized, or if not, will be noted as preliminary until finalized reports are available.

Corrective Action Plan:

- A. OST has strengthened controls to ensure reports issued are correct for end user. Any requests from DFA for fiscal year reporting purposes will be delivered and noted as preliminary, unless already determined as final for OST fiscal year end reporting. Once OST has completed fiscal year reporting and finalized reports, any reports requiring revisions will be delivered as final to DFA.
- B. Justin Smith – Director of Investments, Cash Management, & Collateral

C. July 1, 2020

D. N/A

Sincerely,

A handwritten signature in cursive script, reading "Lynn Fitch". The signature is written in black ink and is positioned above the printed name and title.

Lynn Fitch
Treasurer
State of Mississippi



FINANCIAL AUDIT FINDINGS
or
OTHER AUDIT FINDINGS
or
COMPLIANCE REVIEW FINDINGS

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P.O. Box 956
Jackson, MS 39205-0956

November 7, 2019

Dear Mr. White,

Below is a summary of the MPIC responses to the 6/30/19 FY audit findings.

AUDIT FINDINGS:

2019-1 Controls Related to Segregation of Duties Should Be Strengthened

Response: MPIC is made aware of certain deficiencies in internal control resulting from a lack of segregation of duties.

Corrective Action Plan:

- A. Specific steps to be taken to correct the situation – Certain functions in the payroll, accounts receivable and accounts payable roles have been split so as to ensure that multiple individuals are responsible for all of the duties each role entails; This will ensure that checks and balances in place to protect our assets and minimize errors.
- B. Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 10/30/2019 **COMPLETED**

2019-2 Controls Related to Maintenance of Source Documents Should Be Strengthened

Response: A financial reporting system requires an appropriate review function to ensure that all relevant information is processed correctly and appropriately assimilated into the financial reporting process.

Corrective Action Plan:

- A. Specific steps to be taken to correct the situation – The accounting department is enforcing stronger controls to make sure every receipt and expense report has the proper set of

documentation attached. We have a new process implemented whereby a clerk is assigned to our recipes and expense report before it is checked by our purchasing clerk. After the purchasing clerk has reviewed for accuracy, the documentation is then sent to our controller for final monthly sign-off. If the employee doesn't adhere to the rules, then they will be written up.

- B. Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 10/31/2019 **COMPLETED**

2019-03 Controls Over Inventory Controls Should Be Strengthened

Response: MPIC is aware that the inventory controls should be strengthened to make sure no misstatements are not made, and inventory is accurately stated.

Corrective Action Plan:

- A. Specific steps to be taken to correct the situation – We have scheduled training to fully implement the inventory software (Fishbowl Inventory) that is currently in place. Each shop has established a month-end reconciling system in which they send accounting daily inventory tracking tickets that tie back to a master spreadsheet. Accounting will start matching these tracking tickets against customer sales orders that get billed.
- B. Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 12/31/2019 **IN PROCESS**

2019-4 Controls Related to Property Control System Should Be Strengthened

Response: MPIC is aware that there are certain changes that need to be made to the property control system.

Corrective Action Plan:

- A. Specific steps to be taken to correct the situation – The Controller will work with the current year auditor to make sure that the fixed asset schedules reconcile to the audit schedules and tie to beginning balances on the balance sheet without any errors. The Controller will also make sure a better process is in place of recording additions and deletions of fixed assets;
- B. Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 3/31/2020 **IN PROCESS**

2019-05 Controls Related to Pension and Postemployment Benefit Liability Controls Should Be Strengthened

Response: MPIC was not aware that the internal accounting department was tasked with preparing the Pension and Postemployment benefits calculations internally. Going forward, they are going to learn how to prepare the schedule and adjustments, so the external audit firm does not have to prepare.

Corrective Action Plan:

- A. Specific steps to be taken to correct the situation – The accounting department will take the steps to learn how to prepare and calculate the allocation entry for pension and post-employment benefits without the assistance of the CPA audit firm.
- B. Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 6/30/2020

2019-06 **Controls Related to Reconciliations, Review and Close-out Process for Financial Reporting Should Be Strengthened**

Response: MPIC is aware that controls related to reconciliations, review and close-out process for financial reporting should be strengthened and working on a plan to do so.

Corrective Action Plan:

- A. Specific steps have been taken to correct the situation – An outside firm has been hired to assist the controller with reviewing the month-end books which will serve as a second set of eyes for due diligence. The Controller has delegated some of her duties to others so that the system of checks and balances are effectively adhered to before the books are closed every month.
- B. Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 10/1/2019 **COMPLETED**

2019-07 **Controls Related to Information Technology General Controls (ITGC) Should Be Strengthened**

Response: MPIC is aware that certain ITGC controls need to be put in place and working on a plan to do so.

Corrective Action Plan:

- A. Specific steps to be taken to correct the situation – A contract is going to be put in place for Blakeney Data Solutions that lists terms of what services the third-party provider is going to offer MPIC. Also, Blakeney Data Solutions will help implement a cloud-based backup process. This will eliminate the backup tape system that is currently in place.
- B. Name(s) of the contact person(s) responsible for corrective action- Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 12/31/2019 **IN PROCESS**

A stylized handwritten signature in blue ink, consisting of a large 'B' and 'L' intertwined.

Bradley Lum, CEO

A handwritten signature in blue ink that reads 'Brenda Morgan' in a cursive style.

Brenda Morgan, Controller

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