

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



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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, 2016

MISSISSIPPI



Stacey E. Pickering

State Auditor

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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, 2016

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

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

April 21, 2017

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

Ms. Laura Jackson, 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, 2016. 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", with a stylized flourish at the end.

Stacey E. Pickering
State Auditor

enclosures

STATE OF MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

PART 2 – FINANCIAL STATEMENT FINDINGS

Finding Number **Finding and Recommendation**

DEPARTMENT OF CORRECTIONS

MATERIAL WEAKNESSES

2016-021 Controls Over the Review of Estimated Utilization of Compensatory Time Should Be Strengthened.

Repeat Finding No

Criteria 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.

Condition MDOC did not have procedures in place for detailed review and approval of the calculation spreadsheet for the estimated utilization of the compensatory time portion of accrued compensated absences.

Cause MDOC's designed internal control procedures for identifying and recording of accrued compensated absences did not contain a sufficient detail review process to identify the formula/spreadsheet errors.

Effect As a result, an audit entry was proposed to correct the impact of three formula/spreadsheet errors.

Recommendation MDOC should implement a process, whereas all accrued compensated absences calculations are subject to detailed review and approval.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Management's Response and Corrective Action Plan on page 51.

2016-022 Controls Over the Recording of Appropriations Should Be Strengthened.

Repeat Finding No

Criteria 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.

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

Condition	In 2015, MDOC recorded appropriations based on the budgeted appropriations for each fund. However, subsequent to the preparation of MDOC's financial records (GAAP Packages) and subsequent to the issuance of the 2015 audit, the Mississippi Department of Finance & Administration (DFA) determined that actual appropriations should not have been based on budget but on the actual amount of appropriations that would be allocated to each fund. The actual appropriations amount is calculated and provided by the DFA.
Cause	The timing of the actual appropriations entry, as posted by DFA, was not made until after the submission of MDOC's GAAP Packages and the issuance of the 2015 audit. The actual appropriations to be applied to MDOC were unknown until that time.
Effect	A restatement of beginning fund balance was required to correct the recorded 2015 appropriations.
Recommendation	MDOC should implement a process, whereby DFA provides the actual appropriations amount to MDOC before the closeout of either the GAAP Package process or the issuance of the annual audit.
Views of Responsible Officials	The agency concurs with this finding, however acknowledges the agencies dependency on the Mississippi Department of Finance and Administration (DFA) for providing supporting information.
	NOTE: See Management's Response and Corrective Action Plan on page 51.
2016-023	<u>Controls Over the Cutoff of Contract Payments for Regional Prison, Private Prison, and Medical Contractual Services Should Be Strengthened.</u>
Repeat Finding	No
Criteria	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.
Condition	Historically, MDOC has recognized contract payments for private prisons, regional prisons and medical contracts one month in arrears due to the timing of the contract invoices. During 2016, MDOC determined that appropriate GAAP was to record these contract payments on the modified accrual basis and recognize the expenditures at the time liabilities are incurred, which is the time the contract services are rendered.
Cause	MDOC's designed accounting policies and procedures did not allow for these contract payments to be applied to the appropriate period in accordance with the modified accrual basis of accounting.

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

Effect A restatement of beginning fund balance was required to correct the cutoff of contract payments in the private prison, regional prison and medical fund.

Recommendation Management should implement a process, whereby invoices for contract payments are recorded in the period in which the services are rendered in accordance with the modified accrual basis of accounting.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Management's Response and Corrective Action Plan on page 51.

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

DEPARTMENT OF EDUCATION

MATERIAL WEAKNESSES

2016-035 Management overrode internal controls and procedures and charged unallowed costs to the Title I program.

Repeat Finding No

Criteria Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. MDE must establish and maintain effective internal control over financial reporting to provide reasonable assurance that financial reports are accurate and supported.

Condition Unknown

Cause Controls were overrode by Management.

Effect Unallowed program expenditures were charged to the Title I program and drawn from USDE. MDE is required to pay restitution to USDE which affects available general funds.

Recommendation MDE should review and enhance current procedures to avoid a reoccurrence. The procedural updates should (at a minimum) provide a protocol for the Office of Accounting in regards to making changes to approved payment requests (MAGIC internal order, payee, dollar amount, etc...). If a change is required the Office of Accounting should return/reject-electronic the request. The Department should make the proper changes, obtain approvals and resubmit to the Office of Accounting. If the Office of Accounting is unable to process the request due to unavailable program funds, the resubmitted request should be (at a minimum) reviewed and approved by the Director – Office of Accounting, the Chief Operations Officer and the applicable Executive Director.

MDE should require federally supported programs to reconcile expenditures, cash receipt and available funds on a monthly basis (no later than quarterly) to identify errors and potential financial problems in a timely manner. Evidence of the review and conclusions reached should be documented and readily available.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Management's Response and Corrective Action Plan on page 53.

2016-036 The Office of Accounting internal controls and procedures over review and reconciling MDE's general ledger account did not detect materially misstated account balances.

Repeat Finding No

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

Criteria	Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. MDE must establish and maintain effective internal control over financial reporting to provide reasonable assurance that financial reports are accurate and supported.
Condition	The GAAP package for fund 5320100000 prepared by the Office of Accounting and submitted to the Department of Finance and Administration (DFA) was materially misstated; which were not detected by the Office of Accounting. The year-end account balance for cash, due from federal government, accounts payable and due to other state governments were materially misstated. The Office of Accounting prepared the GAAP package based on financial information reported in the statewide general ledger (Mississippi Accountability System for Government Information and Collaboration (MAGIC)). However, the account detail contained material errors such as cleared due from federal government and accounts payable transactions, double counted expenditures and incorrect cash balance. The Office of Accounting notify DFA or the auditors of the errors. Furthermore, MDE's review, approval and maintenance of documentation for year-end accruals posted by DFA were not evident and/or readily available.
Cause	The Office of Accounting does not have procedures for reviewing and reconciling the Department's general ledger and account detail throughout the year or at year end.
Effect	<p>The account balance for grant receivable (due from federal government) was overstated by \$35,278,955 which was received and processed by the State Treasurer and DFA in March 2016. The cash receipt was posted to the incorrect fund; therefore, fund 5320100000 receivable and cash account balances were incorrect.</p> <p>The accounts payable balance was overstated by \$1,674,754 due to outstanding vendor payments that were cleared prior to 6/30/2016 but were not removed from the account detail.</p> <p>The account balance for due to other government was overstated by \$36,828,134 because the year-end accrual for FY 2015 was not reversed at the beginning of FY 2016. Therefore, the related fund expenditures for FY 2015 were included in the FY 2016 expenditure total.</p>
Recommendation	MDE should develop and implement procedures for reviewing the general account balance detail. All transactions recorded by DFA should be reviewed, supported and agreed to by MDE. MDE should notify DFA of errors within the account detail. While DFA is responsible for posting year-end accruals and entity-wide journal entries for state-wide reporting purposes, MDE's (and all state departments) general ledger account balances are the Department's responsibility.

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

Views of Responsible Officials

The agency concurs with this finding.

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

2016-037

Procedures over accounting for grants should be strengthened in order to accurately present grant activity and the related grant receivable and unearned revenue account balances

Repeat Finding

No

Criteria

Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. MDE must establish and maintain effective internal control over financial reporting to provide reasonable assurance that financial reports are accurate and supported.

Condition

The account balance detail for grants receivable (due from federal government) and unearned revenue was not supported by the activity of individual grant. The Office of Accounting maintains the grant schedule which used to assist the Office of Accounting with determining the year-end grant receivable and related unearned revenue account balance. We selected grant receivable and unearned revenue transactions for testing and noted that the transaction may not reflect the year-end activity of an individual grant, but the activity of several grants within the specific federal program (Title I, Special Education Cluster, etc. Child Nutrition Cluster) or grants closed in prior years. The schedule is maintained based on grant activity in MAGIC.

For GAAP package reporting purposes, grants with excess cash receipts over expenditures was identified as unearned and grants with excess expenditures over cash receipts was identified as a receivable, which resulted in materially misstated grants receivable and unearned revenue account balances. In order to determine a reasonable grants receivable and unearned revenue balance the total grant activity at the program level was used.

Grant receivable and unearned revenue should be calculated at the individual grant award level order to accurately determine the grant receivable and unearned grant revenue balances at year end.

Cause

DFA instructed MDE to report the grant activity separately for each grant. MDE did update the grant schedule accordingly; therefore, the GAAP package presentation did not reflect the accurate an account balance for due from federal government and unearned revenue.

Effect

The account receivable and unearned revenue account balances were overstated by \$25,989,203.

Recommendation

We recommend that MDE continue to report new and future grant activity by each grant, and retroactively update grant activity in order to accurately reflect

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

the grant's in MAGIC. Also until DFA accurately reflect the individual grant activity in MAGIC, a grant schedule should accurately reflect the grant activity of each grant and be reconciled to MAGIC. This will provide support for the year-end adjustment and reporting of the grants receivable and unearned revenue account balance.

Views of Responsible Officials

The agency concurs with this finding.

NOTE: See Management's Response and Corrective Action Plan on page 55.

2016-045

MDE's was not adequately prepared for the financial audit which resulted in untimely delays in the issuance of the financial statements of funds 5320100000 and 4423000000.

Repeat Finding

Yes; Material Weakness Finding 2015-021

Criteria

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.

Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. MDE must establish and maintain effective internal control over financial reporting to provide reasonable assurance that financial reports are accurate and supported.

Condition

The Office of Accounting was not prepared for the audit on the agreed upon date between the external auditors and MDE. The original issuance date of the fund financial statements was December 31, 2016. MDE did not meet this deadline.

In addition, the Office of Accounting was responsible for delays during the audit process. As a result the financial statements were not issued until March 2017.

Cause

The Director of the Office of Accounting was the designated audit liaison for the Office of Accounting and did not delegate the responsibility to a staff who could dedicate more time and resources to assisting the auditors. Also, due to the Office of Accounting's lack of review and reconciliation of MAGIC account balances, responses to auditor inquiries were not readily available.

The first day of fieldwork was October 17, 2016. The final trial balance for fund 5320100000 was provided October 27, 2016. Based on our review of the trial balance and account detail we provided the Office of Accounting a list documentation request list. On November 16, 2016, the Director of Accounting received a detailed list of all outstanding items. On November 28, 2016 and December 12, 2016 we followed up regarding the status of outstanding items. As of January 3, 2017, the outstanding items included documentation requested in

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

November 2016. Furthermore, as documentation was received and reviewed additional auditor questions and requests may arise; MDE's response to such requests were prolonged as well.

Additionally, inadequate responses to the auditor inquiries caused additional delays.

Effect

The financial audits for funds 5320100000 and 4423000000 were not completed by intended deadline which affection the completion of the State's CAFR.

Recommendation

We recommend MDE review its policies and procedures over the timing of the year end close out process. Part of these procedures should include the preparation of documentation needed to complete the audit of the financial statements such as account reconciliations, variance fluctuation explanations, etc.. We also recommend that MDE identify a member in Executive Leadership that would be responsible for overseeing the Office of Accounting regarding the office's preparation and response to audit inquiries to ensure that MDE met the deadline for filing annual financial statements.

**Views of Responsible
Officials**

The agency concurs with this finding.

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

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

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

DEPARTMENT OF FINANCE AND ADMINISTRATION

MATERIAL WEAKNESSES

2016-008 Segregation of Duties Conflicts Exist within the Mississippi Accountability System for Government Information and Collaboration

Repeat Finding Yes; 2015-029 Material Weakness Finding

Criteria *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.

Additionally, the Access Control Portion of the Governance, Risk and Compliance (GRC) module within MAGIC, when fully implemented, can reduce the number of segregation of duties conflict inherent in the user access assignment process.

The Corrective Action Plan submitted in the fiscal year 2015 audit of the Department of Finance and Administration (DFA) indicated that DFA personnel would require and certify that agencies had completed quarterly access reviews, and that the GRC Module would be fully implemented by June 2017.

Condition During testwork performed for the fiscal year 2016, we noted the following prior year findings had not been corrected:

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

- GRC module was not implemented in fiscal year 2016.
- Agencies did not certify annually that they had completed user access reviews quarterly.
- DFA did not review or verify that agencies were completing user access reviews on a quarterly basis or require annual certifications of access reviews.
- Ability to enter, post and approve transactions was not appropriately restricted to personnel.
- Ability to enter, post and approve transactions in the E-Grants (CRM) system was not appropriately restricted to agency personnel.
- User access for separated employees and/or contractors was not appropriately terminated timely.

Cause

Unknown

Effect

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

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.

Views of Responsible Officials

The agency acknowledges this finding.

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

2016-009

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

Repeat Finding

Yes; 2015-031 Material Weakness Finding

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

Criteria	<p><i>Section 27-104-3 Miss. Code Ann. (1972)</i> requires that the Department of Finance and Administration (DFA) prepare and issue a comprehensive reference manual or manuals of policies and procedures for each state agency and department to use, which may include chapters on various fiscal responsibilities, and maintaining financial records and preparing financial reports. DFA is also responsible for updating the manual(s) on a continuing basis.</p> <p>Historically, DFA provided agencies with the Mississippi Agency Accounting Policies and Procedures (MAAPP) manual, which provided agencies with policies and procedures related to the accounting system, input documents, output documents, internal control procedures, and accounting and reporting matters.</p>
Condition	During our review of the internal control environment for fiscal year 2016, 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.
Cause	Unknown
Effect	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, we recommend DFA update the MAAPP manual to ensure relevance of policies and procedures related to the accounting and internal control procedures in the statewide accounting system.
Views of Responsible Officials	The agency concurs with this finding.

NOTE: See Managements Response and Corrective Action Plan on page 58.

2016-010	<u>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</u>
Repeat Finding	Yes; 2015-030 Material Weakness Finding
Criteria	<p><i>Section 27-104-4, Miss. Code Ann. (1972)</i> 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</p>

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

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.

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.

Condition

The Department of Finance and Administration (DFA) 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 2016 fiscal year. Further, reporting issues at various individual state agencies as well as DFA's current financial reporting process has hindered the ability of DFA to prepare a complete CAFR timely. 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 DFA, 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 (see finding 2016-011 for additional information);
- Misstatements in amounts owed to/from federal agencies;
- Reconciliation errors between cash in MAGIC and cash in Treasury;
- Transfer errors between funds; and
- Inaccuracies in financial reports produced by agencies.

It should be noted that the Department of Finance and Administration – Office of Financial Reporting (DFA-OFR) obtained an extension for the CAFR from GFOA this year due to the continuing difficulties encountered because of the implementation of the Mississippi Accountability System for Government Information and Collaboration, (MAGIC), the new accounting system used by the State.

Cause

Continuing issues with the implementation of MAGIC and the overhaul of the statewide accounting system and over reliance on the accounting knowledge and

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

expertise of the centralized accounting functions at DFA - OFR. See finding 2016-2012 for additional information regarding this area.

Effect The failure of DFA-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 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.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Managements Response and Corrective Action Plan on page 59.

2016-011 The State of Mississippi Should Strengthen the Process for Recording Interagency Transfers, Payables and Receivables.

Repeat Finding No

Criteria *Section 27-104-3 Miss. Code Ann. (1972)* requires that the Department of Finance and Administration (DFA) prepare and issue a comprehensive reference manual or manuals of policies and procedures for each state agency and department to use, which may include chapters on receipts, warrants and expenditures. DFA is also responsible for updating the manual(s) on a continuing basis.

Condition During testing for fiscal year 2016, we noted inconsistencies in the way differing state agencies accounted for interagency payables, receivables and transfers. We also noted that, due to these inconsistencies, the Department of Finance and Administration (DFA) were required to make reclassification and adjusting journal entries of approximately \$40 million in order to ensure material misstatement of the financial reports did not occur.

Cause Lack of governing policies regarding the recording of interagency payables, receivables and transfers. Additionally, lack of overriding controls in the statewide accounting system.

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

Effect The failure of the State to require consistency in the accounting treatment of payables, receivables and transfers could lead to material misstatement of the Comprehensive Annual Financial Report.

Recommendation We recommend the Mississippi Department of Finance and Administration implement overarching policies and procedures regarding interagency transfers, payables and receivables and communicate these policies to state agencies.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Managements Response and Corrective Action Plan on page 60.

2016-012 The State of Mississippi Should Require Chief Fiscal Officers of State Agencies to hold Minimum Accounting Qualifications and Attend Mandatory Training.

Repeat Finding No

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 2016, 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.

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

	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 Mississippi Department of Finance and Administration implement mandatory training sessions for accounting personnel and Chief Fiscal Officers. Additionally, we recommend the State of MS implement minimum qualifications for Chief Financial Officers.
Views of Responsible Officials	The agency acknowledges this finding.
	NOTE: See Managements Response and Corrective Action Plan on page 60.
2016-013	<u>Controls over Vulnerability Management, Software Obsolescence and Security should be Strengthened</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 is reliable and accurate. An important aspect of accurate information and communication is that information technology ensures reliable communication and management.
Condition	During our review of the Information Technology General Controls (ITGC) of the Department of Finance and Administration (DFA), we noted that outside information security assessments performed noted significant deficiencies in the obsolescence, security, and vulnerabilities of certain IT systems. Additionally we noted that Management was aware of the deficiencies and did not take timely corrective action to address these issues.
Cause	Unknown
Effect	Failure to properly correct or manage these vulnerabilities could result in the compromise of the confidentiality, integrity and reliability of data generated by DFA.

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PART 2 – Financial Statement Findings (continued)

Recommendation We recommend the Department of Finance and Administration strengthen controls over software obsolescence, security and vulnerability management to ensure that areas of concern are noted and timely corrected.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Managements Response and Corrective Action Plan on page 62.

SIGNIFICANT DEFICIENCIES

2016-014 Codes and Clients in the Mississippi Accountability System for Government Information and Collaboration have not been set to productive.

Repeat Finding No

Criteria *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 IT infrastructure controls and appropriate. These controls should include manual and automated controls over how transactions are initiated, authorized, recorded, processed and reported.

Condition During our review of the Information Technology General Controls (ITGC) of the Department of Finance and Administration (DFA), we noted that DFA's Mississippi Management and Reporting System (MMRS) division has not set the Mississippi Accountability System for Government Information and Collaboration (MAGIC) environment to productive.

Cause Unknown

Effect Failure to ensure that the productive indicator is activated could result in critical financial transaction data loss to the State.

Recommendation We recommend the Department of Finance and Administration set the environment to productive without haste and review the system to ensure that the delay has not negatively impacted the statewide accounting system.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Managements Response and Corrective Action Plan on page 62.

2016-015 Controls Should Be Strengthened Over the Security Audit Log of Mississippi's Accountability System for Government Information and Collaboration.

Repeat Finding Yes; 2015-027 Material Weakness Finding

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PART 2 – Financial Statement Findings (continued)

Criteria	<p>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.</p> <p>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.</p> <p>Inherent in the MAGIC system is a security audit log. This log records the following:</p> <ul style="list-style-type: none"> • Successful and unsuccessful dialog logon attempts • Successful and unsuccessful transaction starts • Successful and unsuccessful report starts • Changes to user master records
Condition	<p>During testwork performed for the fiscal year 2016 audit, we noted the following exceptions:</p> <ul style="list-style-type: none"> • 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.
Cause	Unknown
Effect	<p>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.</p>
Recommendation	<p>We recommend that the Department of Finance and Administration enable the exception 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.</p>
Views of Responsible Officials	<p>The agency acknowledges this finding.</p>

NOTE: See Managements Response and Corrective Action Plan on page 63.

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

2016-016 Controls Should Be Strengthened Over the Vendor Master File and Issuance of Payments to One Time Vendors

Repeat Finding Yes; 2015-032 Significant Deficiency Finding

Criteria 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.

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 “1099 vendor accounts” and will not approve warrants to any “one time vendor” when these general ledger accounts are expensed.

Condition During testwork performed for the fiscal year 2016 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.

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

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

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

The agency concurs with this finding.

NOTE: See Managements Response and Corrective Action Plan on page 63.

2016-017

Controls Should Be Strengthened Over Journal Entry Approvals and Updated Policies and Procedures should be produced.

Repeat Finding

No

Criteria

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 providing adequate policies and procedures to personnel have been implemented. These controls should include accurate and updated controls over how transactions are initiated, authorized, recorded, processed and reported.

Good internal controls dictate that all transactions and other significant events be clearly documented and readily available for examination. This audit trail includes maintaining adequate support and proper evidence of approval of all journal entries entered into the statewide accounting system. Additionally, according to existing policies and procedures established in the Mississippi's Accountability System for Government Information and Collaboration (MAGIC) system require that all manual journal entries (Type YV) over \$1,000 must be reviewed and approved by the Department of Finance and Administration (DFA) before they can be successfully applied.

Condition

During testwork performed for the fiscal year 2016 audit, we noted the following exceptions:

- Twelve journal entries approved by DFA in the MAGIC system had no supporting documentation and could not be verified for accuracy.
- Two journal entries approved by DFA in the MAGIC system did not have adequate supporting documentation and could not be verified for accuracy.
- Inadequate documentation of the approval process for journal vouchers was provided. Documentation had not been updated since the implementation of MAGIC and still referenced controls and policies in use in the outdated statewide accounting system.

Cause

DFA did not adequately review journal entries before approving them in the MAGIC system.

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PART 2 – Financial Statement Findings (continued)

Effect Failure to review journal entries; failure to obtain adequate documentation; and failure to update approved processes could lead to misappropriation of assets and material misstatements in financial statements.

Recommendation We recommend that the Department of Finance and Administration implement a post-audit review of all journal entries entered into the statewide accounting system to strengthen the controls in the approval process. Additionally, we recommend that policies and procedures be updated and distributed to all applicable employees.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Managements Response and Corrective Action Plan on page 64.

2016-018 Reports regarding the Cash Reconciliations in the Accounting System should be Accurate and Timely.

Repeat Finding Yes; 2015-028 Material Weakness Finding

Criteria The Department of Finance and Administration (DFA) 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, DFA 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.

Condition During testwork performed for the fiscal year 2016 audit, we noted that the Daily Average Cash Balance (DCAB) reports needed by the Office of the State Treasurer (OST) to reconcile bank records with OST financial records were not accurate and were not provided to OST by DFA timely.

Cause DFA is still in the process of designing the DCAB reports since the implementation of MAGIC.

Effect 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 and

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

provide accurate cash reports to the Office of the State Treasurer.

**Views of Responsible
Officials**

The agency concurs with this finding.

NOTE: See Managements Response and Corrective Action Plan on page 65.

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PART 2 – Financial Statement Findings (continued)

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PART 2 – Financial Statement Findings (concluded)

DEPARTMENT OF HEALTH

MATERIAL WEAKNESS

2016-043 Management should strengthen policies, controls and oversight over proper cut-off of indirect cost recovery revenue.

Repeat Finding No.

Criteria 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.

Condition MSDH's procedures to ensure all significant receivables related to indirect cost recovery and services provided through the clinics 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.

Cause Although MSDH'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 indirect cost recovery amounts due to MSDH at year-end but submitted after the lapse period. This process does not include a review of the Department of Finance and Administration's (DFA) accruals to ensure all items requiring accrual are properly captured. Additionally, MSDH does not have an appropriate process to review, analyze and record an allowance for doubtful accounts related to services provided in the clinics.

Effect As a result, material prior year grant revenues were recorded as revenues in the current year in Fund 3330100000 for indirect cost recovery paid after the lapse period. Additionally, a material current year accrual was recorded as an audit adjustment related to services provided through the clinics.

Recommendation MSDH has enhanced and improved controls during the year to establish acceptable cut-off of indirect cost recovery revenue. MSDH should continue to seek ways to strengthen policies, controls and oversight over this process to ensure the proper amount is accrued by DFA during the lapse period accrual process. For accounts receivable related to services provided in the clinics, we recommend management review, analyze and record an allowance for doubtful accounts on a monthly or quarterly basis. Management should compare actual results to recorded estimates.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Managements Response and Corrective Action Plan on page 67.

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PART 2 – Financial Statement Findings (concluded)

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PART 2 – Financial Statement Findings (concluded)

DEPARTMENT OF HUMAN SERVICES

MATERIAL WEAKNESS

2016-029 Controls Should Be Strengthened Over Account Reconciliations and Financial Reporting.

Repeat Finding No.

Criteria The Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual highlights essential types of control activities including, but not limited to:

- Authorization - provide reasonable assurance that all transactions are within the limits set by policy or that exceptions to policy have been granted by the appropriate officials
- Review and approval – encompass a variety of computer and manual controls that provide reasonable assurance that all accounting information has been correctly captured.
- Reconciliation – provide reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in agency accounting information systems.

The information system relevant to an agency's financial reporting objectives consists of the methods and records established to identify, assemble, analyze, classify, record, and report entity transactions and to maintain accountability for the related assets and liabilities. The quality of system generated financial information affects management's ability to make appropriate decisions in managing and controlling an agency's activities.

Condition Due to the implementation of a new statewide accounting system, Mississippi Accountability System for Government Information and Collaboration (MAGIC), in fiscal year 2015, 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.

Our fiscal 2016 audit procedures resulted in audit adjustments to accounts payable, due to other governments and various transfers between agencies, some adjustments which were as a result of continuing reconciliation items related to the 2015 MAGIC implementation. Currently, accrual entries and entries involving transfers between funds and governments may sometimes be made by MDHS personnel and sometimes by personnel at the Department of Finance and

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Administration. Once entries are made there does not appear to be a viable review process in place to prevent and detect errors.

Our audit also resulted in material adjusting entries to the fund statements to only include receivables that are measurable and available. Available means collectible within two months (the lapse period). However, for the statement of new assets, full accrual accounting is used and an allowance should be provided to reduce receivables to net realizable value. Currently, MDHS does not have a mechanism in place to reduce receivables to amounts collected within the lapse period. Further, there is inadequate documentation in place to support the expectation of ultimate net realizable value. Expenditures should be accrued when incurred, except notes payable are recognized when due and claims and similar obligations payable are recognized when expected to be liquidated. The audit also resulted in some liabilities being written off that were related to the receivables that were not considered collectible.

Cause

The issues noted in this finding are primarily as a result of continuing refinement of processes associated with the implementation of a new statewide accounting system in the prior year. In addition, staff were either unaware or did not follow identified policies and procedures for completing account reconciliations and producing financial reports.

Effect

Failure to implement a timely and effective reconciliation process could:

- Increase the risk of fraud, waste, and mismanagement of funds.
- Affect MDHS' ability to effectively monitor budget execution.
- Affect MDHS' ability to accurately measure the full cost of its programs.
- Result in erroneous financial statements.

Recommendation

We recommend that MDHS enhance its reconciliation and closing journal entry review and approval process to fully document fiscal year ending balances, including all closing entries made by the Department of Finance and Administration. In addition, we recommend MDHS develop a process to identify and segregate balances which will not be settled in the lapse period which will aid in the preparation of year-end financial information and identify older reconciling items and take appropriate action to clear these items.

**Views of Responsible
Officials**

The agency concurs with this finding.

NOTE: See Managements Response and Corrective Action Plan on page 69.

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PART 2 – Financial Statement Findings (concluded)

DEPARTMENT OF REVENUE

MATERIAL WEAKNESS

2016-005	<u>Controls Should Be Strengthened over Adjustments to Taxpayer Accounts</u>
Repeat Finding	Yes, 2015-016
Criteria	Good internal controls require a supervisory approval of significant and unusual adjustments made to taxpayer trial balances. The approval should be performed in a timely manner and adequately documented to identify the date of the approval.
Condition	The Mississippi Automated Revenue System (MARS) has security function levels that allow the capacity to perform certain types of activity within the system. Of the 602 users with access to MARS, 492 users with security function level 2702, or 82 percent, 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 DOR employees who work return exceptions from work list queues tailored specifically for the employee. However, the function also allows return changes to be entered after the initial posting of a return, which results in a new system version of a return being created and posted to taxpayer account trial balances, without requiring any approval from another MARS user. The agency created a computer change request during fiscal year 2015 in response to this similar prior year finding in order for 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 2016.
Cause	Unknown
Effect	Failure to require a supervisory review and approval of significant and unusual adjustments to taxpayer account balances could result in errors or fraud occurring and not being timely detected, which could result in misstatements to the agency's financial statements.
Recommendation	We recommend the Mississippi Department of Revenue strengthen controls over adjustments to taxpayer accounts by ensuring significant and unusual adjustments in the Mississippi Automated Revenue System are approved by appropriate management personnel. The approval should be documented for internal monitoring and audit purposes.
Views of Responsible Officials	The agency concurs with this finding.

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NOTE: See Management's Response and Corrective Action Plan on page 75.

SIGNIFICANT DEFICIENCIES

2016-006 GAAP Packet Supporting Schedules Should Be Completed in a Timely and Accurate Manner

Repeat Finding Yes, 2015-018

Criteria 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 30th 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 in order to be awarded a Certificate of Achievement for Excellence in Financial Reporting. It should be noted that the Department of Finance and Administration 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 accounting system used by the State, in fiscal year 2015.

Condition 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 (OST) in order for OST to compile the GAAP Packet for the Treasury Clearing Fund 3917100000 (9171). DOR did not perform a timely preparation of this schedule; and therefore, OST did not timely prepare the 9171 GAAP Packet. The final version of the schedule was submitted to OST on October 27, 2016 and the 9171 GAAP Packet was submitted by OST to the Department of Finance and Administration (DFA) on November 15, 2016. GAAP reporting packets were due to DFA by September 9, 2016 with OST receiving an extension to submit the 9171 GAAP packet by October 17, 2016.

In addition, based on testwork performed over the 9171 GAAP Packet, the following adjustments were made by auditor:

- 'Accounts Payable' was reclassified to 'Income Tax Refunds Payable' in the amount of \$46,632,657 to account for the income tax refund reserve balance at fiscal year-end. Income tax refunds payable is discreetly presented as a liability on the governmental funds balance sheet in the CAFR.
- 'Unearned revenue' was reclassified to a 'Due to Other Funds' liability account for \$5,570,000 in order to match the similar 'Due from Other

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Funds' accrued by the Department of Wildlife, Fisheries & Parks for petroleum taxes transferred by DOR in July annually.

- 'Other Taxes Receivable' and 'Gaming Fees' were increased by \$1,544,470 to correct the amounts queried by the Mississippi Automated Revenue System for gaming collections received after fiscal year end for filing periods lapsing prior to fiscal year end.

Cause Unknown

Effect The failure of agency personnel to submit required accounting schedules to the OST in a timely manner prevents the timely submission of the 3917100000 GAAP packet to DFA and hinders the efficiency of the audit. These delays contributed 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.

Additionally, failure to properly classify payables in fiscal year 2016 resulted in a material misstatement that was corrected by audit via adjusting entries.

Recommendation We recommend the Mississippi Department of Revenue implement procedures to ensure the timely and accurate 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.

Furthermore, we recommend the Mississippi Department of Revenue thoroughly review payable transactions to ensure proper classification.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Management's Response and Corrective Action Plan on page 75.

2016-007 Controls Should Be Strengthened over the Reconciliation of Alcohol Beverage Control Taxes

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PART 2 – Financial Statement Findings (concluded)

Repeat Finding No

Criteria The Miss. Code Ann. (1972) dictates distribution of state tax collections. Good internal controls dictates an automated system should be reconciled to ensure files created by the system agree with agency records and the state general ledger system.

Condition Alcohol Beverage Control (ABC) taxes were converted into the Mississippi Automated Revenue System (MARS) in October of 2015 during fiscal year 2016. MARS replaced the former method of diverting tax collections to a computer automated process. Through observations and discussions with management, it appears that MARS has been tested by the Department of Revenue (DOR) and the MARS developer to ensure the system is properly programmed to automate tax diversions based on specific tax laws as included in the Miss. Code Ann. (1972).

Since the implementation of ABC taxes into MARS, DOR has not performed a routine reconciliation between diversions files created by MARS to DOR's transfer records and balances recorded in the Mississippi Accountability System for Government Information and Collaboration (MAGIC).

Based on testwork performed, we noted liquor tax revenue had an ending debit balance of \$3,025,624 in the ABC Revolving Fund 3389500000. Unless specific instances dictate otherwise, accounting principles dictate that revenue accounts should not have debit balances. The amount was corrected by audit via an adjusting entry to remove the debit balance to liquor tax revenue.

Cause The agency does not currently have a reconciliation process between agency records, MARS, and MAGIC balances.

Effect Failure to reconcile files created by the Mississippi Automated Revenue System to agency records and the Mississippi Accountability System for Government Information and Collaboration could result in misstatements to the State's financial statements. Failure to properly reconcile revenue in fiscal year 2016 resulted in a misstatement that was corrected by audit via an adjusting entry.

Recommendation We recommend the Mississippi Department of Revenue strengthen controls over the diversion of Alcohol Beverage Control tax collections. Reconciliations should be routinely performed over diversion files created by the Mississippi Automated Revenue System and agency's transfer records for taxes and balances recorded in the Mississippi Accountability System for Government Information and Collaboration.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Management's Response and Corrective Action Plan on page 76.

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PART 2 – Financial Statement Findings (concluded)

DIVISION OF MEDICAID

MATERIAL WEAKNESS

2016-001 Controls Should Be Strengthened to Ensure Accurate and Timely Reconciliations are Performed between Accounting Reports and the Underlying Supporting Documentation.

Repeat Finding No

Criteria Per the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), satisfactory control environments are effective only when control activities, such as reconciliations, are performed timely and accurately.

Condition During testwork performed for Mississippi Division of Medicaid (DOM)'s Funds 5332800000 and 5332100000 Schedule of Expenditures and Federal Awards (Form 27.30.60) for fiscal year 2016, we noted the following:

- DOM's accounting records in the statewide accounting system, The Mississippi Accountability System for Government Information and Collaboration (MAGIC), did not agree to the Schedule of Expenditures and Federal Awards (SEFA) and timely reconciliations had not been performed. Reconciliations prepared by auditors and DOM's management required material audit adjustments to be made.
- Underlying support for audit adjustments was not readily available.

Cause With the implementation of MAGIC in fiscal year 2015, DOM was required to segregate the State and Federal monies and expenditures into two distinct funds. In order the expedite financial transactions, DOM estimated the percentage division between those two funds, and neglected to true- up or reconcile the correct amounts per fund for fiscal year 2016. This resulted in inaccurate financial records and disagreement with DOM's SEFA.

Effect Failure to maintain accurate accounting records in MAGIC could result in a material misstatement in the State's Comprehensive Annual Financial Report.

Recommendation We recommend the Mississippi Division of Medicaid strengthen controls over reconciliations of underlying accounting records to ensure MAGIC reconciles to the Schedule of Expenditures and Federal Awards.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Management's Response and Corrective Action Plan on page 77.

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PART 2 – Financial Statement Findings (concluded)

SIGNIFICANT DEFICIENCY
IMMATERIAL NONCOMPLIANCE

2016-002 Controls Should Be Strengthened to Ensure Compliance with Laws and Regulations Regarding the Timely Preparation of Agency Financial Reports.

Repeating Finding No

Criteria *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.

Condition During our review of financial reporting at the Mississippi Division of Medicaid (DOM), we noted agency personnel did not prepare or submit their financial reports (i.e. GAAP packet) for funds 5332800000 and 5332100000, 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 September 9, 2016. However, the DOM GAAP packet was not submitted until October 7, 2016.

Cause The agency experienced several difficulties in preparing GAAP packets including, but not limited to, interagency transfers and the utilization of the state wide accounting software, MAGIC, to gather the information.

Effect The failure of agency personnel to prepare their GAAP packet for treasury funds 5332800000 and 5332100000 in a timely manner contributed to the CAFR not being published in accordance with state law and hindered the efficiency of the audit of the State of Mississippi's financial statements. In addition, these delays could result in the state not being awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA. Receiving GFOA's certificate increases the likelihood the credit agencies or other stakeholders may consider the state's financial statements in a positive manner. The timeliness of the CAFR being published impacts its relevance to the various users of the CAFR.

In addition, the Single Audit Act requires the State 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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Recommendation We recommend the Mississippi Division of Medicaid implement procedures to ensure the timely completion of their GAAP packet in order to help ensure the CAFR is published in accordance with state law and that the audit of the State of Mississippi's financial statements is performed in an efficient manner.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Management's Response and Corrective Action Plan on page 78.

SIGNIFICANT DEFICIENCY

2016-003 Controls Should Be Strengthened to Ensure Accrual Entries are Accurate and Accounts and Claims Payable are Properly Recorded

Repeat Finding No

Criteria Generally Accepted Accounting Principles (GAAP) require expenditures to be recognized in the period incurred, regardless of when the transfer of cash occurs. Agencies are able to properly account for such expenditures in the correct account period through accrual entries at the end of the fiscal year.

Condition During our review of the accounts payable, we noted that \$33,386,721 was over accrued by the Mississippi Division of Medicaid (DOM). The agency estimates and accrues its claims payables at year end and subsequent, actual payment amounts are not accrued. We noted two instances totaling \$33,386,721 in which July claims payments were erroneously recorded in accounts payable at 6/30/16.

Cause The July payments mentioned above were coded in MAGIC to budget year 2016 and therefore were included in the "high level" accrual for all items relating to 2016. However, since the claims payable is separately estimated and accrued, these payments should not have been included.

Effect Failure to correctly identify the amount of transactions to be accrued at fiscal yearend could result in a material misstatement of the State of Mississippi's Comprehensive Annual Financial Report.

Recommendation We recommend the Mississippi Division of Medicaid strengthen controls to ensure a thorough review of accrual entries is performed in order to ensure claims and accounts payable are properly recorded.

Views of Responsible Officials The agency concurs with this finding.

NOTE: See Management's Response and Corrective Action Plan on page 79.

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OFFICE OF THE STATE TREASURER

MATERIAL WEAKNESS

2016-004 Revenue Should be Recognized in the Period it is Realized or Realizable and Appropriate Accrual Entries Should be Made During GAAP Conversion

Repeat Finding No

Criteria 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.

Section 27.103.302, Miss. Code Ann. (1972) requires all settlement funds received in connection with the Deepwater Horizon oil spill to be deposited into the Budget Contingency Fund.

Generally Accepted Accounting Principles (GAAP) requires revenue to be recognized in the accounting period it is realized or realizable and should be considered “deferred revenue” until such time that it is considered earned.

Condition The State of Mississippi was awarded a settlement agreement against British Petroleum (BP) for economic damages from the Deepwater Horizon oil spill that occurred in 2010. The settlement agreement was signed by the judiciary and effective as of April 4, 2016. The total amount awarded to the State of MS amounted to \$750,000,000, of which \$150,000,000 was to be paid within 90 days. Per Section 27.103.302, Miss. Code Ann. (1972), revenue paid from this settlement is to be deposited in the Budget Contingency Fund which is the responsibility of the Office of the State Treasurer (OST).

Proper GAAP treatment of the settlement would require immediate recognition of the initial \$150,000,000 payment to be recognized as revenue and as a receivable as of the date of the Master Settlement Agreement (April 4, 2016) with the remaining \$600,000,000 to be recognized as Deferred Revenue in fiscal year 2016. Audit review of Settlement Litigation and Claims and GAAP packet review of the Budget Contingency Fund found that the initial payment was recognized as revenue in fiscal year 2017 when it was received and was not properly accrued. Additionally, the remaining settlement revenue was not properly deferred in fiscal year 2016. Failure to recognize this revenue in fiscal year 2016 resulted in a material misstatement that was corrected by auditor via adjusting entries.

Cause Unknown

Effect Failure to properly accrue revenue in the correct accounting period according to GAAP standards resulted in material misstatement that required adjustment.

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

Recommendation We recommend the Office of the State Treasurer strengthen procedures regarding settlement revenue and revenue recognition.

Views of Responsible Officials The agency does not concur with this finding.

NOTE: See Management’s Response and Corrective Action Plan on page 81.

Schedule of Findings and Questioned Costs:
Part 3
Management Response



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STATE OF MISSISSIPPI
DEPARTMENT OF CORRECTIONS
PELICIA E. HALL
COMMISSIONER

March 17, 2017

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 (MDOC) 2016 fiscal year audit. Listed below is our individual response and plan for corrective action:

Audit Finding: Review of Estimated Utilization of Compensatory Time
2016-021

Response: The agency concurs with this finding.

Corrective Action: Management of MDOC will implement more thorough procedures in future periods to review all accrued compensated absences calculations, including the utilization of compensatory time.

Audit Finding: Recording of Appropriations
2016-022

Response: The agency concurs with this finding, however acknowledging the agencies dependency on the Mississippi Department of Finance and Administration (DFA) for providing supporting information.

Corrective Action: MDOC acknowledges that the actual appropriations allocated to each fund may vary from the budgeted appropriations. MDOC is dependent on DFA to provide this information, and DFA did not do so timely in 2015. MDOC will ensure, to the extent possible, that DFA provides this information in a timely manner in the future.

Audit Finding: Cutoff of Contract Payments for Regional Prison, Private Prison, and Medical Contractual Services
2016-023

Response: The agency concurs with this finding.

Corrective Action: MDOC will implement a process whereas these contract payments are properly recorded in accordance with the modified accrual basis of accounting.

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 blue ink, reading "Pelicia E. Hall". The signature is cursive and fluid, with the first name "Pelicia" being the most prominent part.

Pelicia Hall
Corrections Commissioner
State of Mississippi



MISSISSIPPI DEPARTMENT OF EDUCATION

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

March 28, 2017

Financial Statement Findings

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 20, 2017, 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, 2016.

AUDIT FINDINGS:

Internal Control over Financial Reporting

GAAP Package – Fund 5320100000

2016-035 Management overrode internal controls and procedures and charged unallowed costs to the Title I program.

Response: The MDE acknowledges that unallowed costs were charged to the Title I program, and steps are being implemented to prevent this from reoccurring.

Corrective Action Plan:

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

Upon discovery, the MDE immediately required that any recoding or adjustments for payments be approved by members of the Executive Leadership Team before

payments were finalized. In addition, MDE initialized a comprehensive review of current processes and procedures to ensure that this would not reoccur. The

procedures are being documented and will include approval levels up to and including the Chief of the respective bureau and the Chief Operations Officer. Currently, a form is being drafted to document the approvals at all levels to ensure that no adjustments or recoding occurs without final approval from the respective Chiefs. In addition, the agency has contracted with an outside Consultant to provide consultation services to revise and align MDE Policies and Procedures with the Mississippi Accountability System for Government Information and Collaboration (MAGIC). To ensure that the agency has a person on staff dedicated specifically to monitoring compliance, the Chief Operations Officer will be realigning the Operations department and designating someone on staff as a Compliance Manager.

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

Felicia Gavin, Ph.D. – Chief Operations Officer

C. Anticipated completion date for corrective action.

June 30, 2017

Internal Control over Financial Reporting

GAAP Package – Fund 5320100000

2016-036 Internal controls and procedures over review and approval of adjustment posted by the Department of Finance and Administration (DFA) and the Mississippi Department of Education's (MDE) account activity and ending account balances should be implemented.

Response: The MDE does review and approve adjustments posted by DFA. These approvals are noted within the GAAP packages submitted to DFA annually. Accounts Payable balances do still exist in MAGIC, and DFA has now implemented a procedure as of March 2017 whereby they will begin removing cleared payments from the system so that they do not populate on the trial balance. DFA was aware of this situation and has now implemented a procedure to address this issue.

Corrective Action Plan:

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

The MDE will exercise due diligence in the future to ensure a thorough and comprehensive review of all general ledger account balance detail is performed. This will also include a thorough review of all DFA recorded transactions to ensure that they are properly supported and agreed to by MDE. MDE will utilize the process established by DFA in March of 2017 to have the paid invoices removed from the system. As part of strengthening procedures and raising the

level of accountability, the Chief Operations Officer will be restructuring the accounting department to include more oversight.

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

Felicia Gavin, Ph.D. – Chief Operations Officer

C. Anticipated completion date for corrective action.
June 30, 2017

Internal Control over Financial Reporting

GAAP Package – Fund 5320100000

2016-037 Procedures over accounting for grants should be strengthen in order to accurately present grant activity and the related accounts receivable and unearned revenue account balances.

Response: During the 2016 GAAP preparation, DFA instructed agencies to start recording all grants using the grant numbers which was after the year end in June 2016. The MDE has since modified its processes to record all grants on an individual basis.

Corrective Action Plan:

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

The MDE will continue to report new and future grant activity by each grant. A thorough review and reconciliation process is being developed to update all grant activity in MAGIC to accurately reflect the individual grant's activity. The agency is developing a Grants Management team that will meet quarterly to review grant activity and issues. As part of strengthening procedures and raising the level of accountability, the Chief Operations Officer will be restructuring the accounting department to include more oversight.

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

Felicia Gavin, Ph.D. – Chief Operations Officer

C. Anticipated completion date for corrective action.

June 30, 2017

Internal Control over Financial Reporting

GAAP Package – Fund 5320100000 and 4423000000

2016-045 MDE was not adequately prepared for the financial audit which resulted in untimely delays in the issuance of the financial statements of funds 532010000 and 4423000000.

Response: The MDE recognizes that there were challenges in receiving information in a timely manner. The agency is making changes in policies and procedures to ensure that auditors receive information and responses to requests in a timely manner. However, Executive Leadership over the respective area would like to be informed when information is not received in a timely manner. We will designate a contact person at the agency to ensure that the Executive Leadership is informed of any issues with timely receipt of information or of any other issues that arise during the audit.

Corrective Action Plan:

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

Procedures will be updated to ensure that account reconciliations and variance reports are completed. When preparing for audits, deadlines will be given to staff to provide requested documents. As part of strengthening procedures and raising the level of accountability, the Chief Operations Officer will be restructuring the accounting department to include more oversight. To ensure that the agency has a person on staff dedicated specifically to monitoring compliance, the Chief Operations Officer will be realigning the Operations department and designating someone on staff as a Compliance Manager.

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

Felicia Gavin, Ph.D. – Chief Operations Officer

C. Anticipated completion date for corrective action.

July 1, 2017

Sincerely,



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



STATE OF MISSISSIPPI
GOVERNOR PHIL BRYANT

DEPARTMENT OF FINANCE AND ADMINISTRATION
LAURA D. JACKSON
EXECUTIVE DIRECTOR

April 1, 2017

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 21, 2017, 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, 2016.

AUDIT FINDINGS:

MATERIAL WEAKNESSES

Finding Number

2016-008

Finding Description

Controls should be Strengthened over Segregation of Duties within the Mississippi Accountability System for Government Information and Collaboration (MAGIC)

Response:

We acknowledge the finding.

Section 7-7-3(6) (d), Miss. Code Ann. states that each agency is responsible for continuous internal audit. DFA prescribes rules and regulations that clearly state that each state agency head and chief financial officer are responsible for the design, implementation, and maintenance of the internal control program within the agency. Therefore, each agency is responsible for the proper segregation of duties within the agency.

The Corrective Action Plan submitted in Fiscal Year 2016 for the June 30, 2015, audit stated that GRC was anticipated to be implemented by the end of Fiscal Year 2017. In addition,

additional research has led us to determine that implementing GRC is not a viable solution for DFA.

We accept that we have a responsibility in the internal control framework and must provide the tools to assist agencies in the internal control process. MAGIC security roles allow for the segregation of duties and the internal control assessment tool assists agencies in reviewing employees' duties and roles within the agency.

CRM includes security roles that allow for the segregation of duties. The Grantor Analyst role allows access to the applications, agreements and change request forms. The Grantor Accountant role allows access to the grantor claim forms. There is a Grantor Manager role that includes access to applications, agreements, change requests, and claim forms.

Corrective Action Plan

(a) A quarterly MAGIC security report will be made available to the agencies. In addition, training will be provided for the agency security contacts.

The CRM roles will be reviewed and if necessary changes will be made to further segregate the roles and responsibilities.

(b) Diane Langham is the contact person for this corrective action.

(c) The change will be completed by June 30, 2017.

(d) N/A

2016-009

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

Response:

We concur with the finding.

We have already completed some updates to the Mississippi Agency Accounting Policies and Procedures (MAAPP) manual, and the MAAPP manual still has many relevant sections. Many user aids and training materials are currently available to users on the MAGIC web site. The vision of the revised MAAPP manual will not only address policies and procedures, but will contain hyperlinks that users can access the many training aids available. As more aids are developed, we will add them to the respective sections of the MAAPP manual.

Corrective Action Plan

(a) The DFA is in the process of reviewing and updating the MAAPP manual.

(b) The contact person responsible for this corrective action is Lisa Dunn.

(c) We anticipate the revised MAAPP manual being available to users by December 31, 2017.

(d) N/A

2016-010

Process of Compiling the Comprehensive Annual Financial Statements and the Schedule of Expenditures of Federal Awards Should be Strengthened

Response:

We concur with the finding.

During fiscal year 2016, the Office of Financial Reporting continued to develop the process for producing the CAFR from MAGIC. We would like to note the following achievements made during compilation of the CAFR.

- Converted assets were reconciled to the sub ledger detail. Automated asset accounting rules were reconfigured to better support CAFR accounting, and activity prior to the reconfigured rules was reclassified.
- Long term debt was converted in MAGIC and reconciled to supporting documents.
- Use of MAGIC to account for federal grants was enforced in an effort to expedite preparation of the SEFA.
- New trial balance reports were developed in MAGIC to assist in CAFR preparation.
- The DFA began using MAGIC for government-wide CAFR accounting.

Corrective Action Plan

(a) Workshops will be held in the current year to train state agency GAAP coordinators on the GAAP year-end process and reiterate the importance of timely reporting. We will have staff dedicated to following up with state agencies in an effort to force adherence to deadlines for submission of the GAAP packets. In addition, we will reinforce through the training, in cooperation with the Office of the State Auditor (OSA), the importance of adhering to an audit schedule that will accommodate timely completion of the CAFR.

(b) The contact person responsible for this corrective action is Cindy Ogletree.

(c) The anticipated implementation for this corrective action plan is June 2017.

(d) N/A

2016-011

Controls Should be Strengthened over the Process for Recording Interagency Transfers, Payables and Receivables

Response:

We concur with the finding.

Agencies were contacted prior to year-end and directed to review their receivable balances and were offered assistance to record necessary corrections. As part of the year-end training, agencies will again be advised to review and adjust receivable balances. Additional discussions are being pursued about possible changes to the system process for interagency transactions.

Corrective Action Plan

(a) The DFA will provide instructions to the agencies for identifying accounts receivable balances and procedures for correcting. Additionally, the DFA will monitor interagency balances.

(b) The contact person responsible for this corrective action is Cindy Ogletree.

(c) The anticipated implementation for this additional information to the agencies is June 2017.

(d) N/A

2016-012

Controls Should be Strengthened over the Minimum Accounting Qualifications; and Mandatory Training of the Chief Fiscal Officers of State Agencies Should be Developed to Strengthen Accuracy in Financial Reporting and Compliance

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 assist them in the transition and 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. In addition to providing training on the state accounting system, we also provide training on GAAP reporting for financial statement preparation. 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 in the 20 largest state agencies in terms of budgeted funds. 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. (The audit finding does acknowledge the fact that DFA has no direct control over minimum qualifications for individual agency personnel.)

Corrective Action

(a) The audit finding recommendation is for DFA to work together with the Mississippi State Personnel Board, the Governor's Office and the legislative bodies to revise the minimum qualifications for Chief Fiscal Officers and to create a statewide compensation strategy to recruit and retain qualified staff. We will commit to notifying these parties of the issues and begin the conversation to affect change. However, as acknowledged by the Office of the State Auditor in the finding,

action to accomplish this is outside of DFA's purview and control.

DFA will continue to provide training opportunities for accounting personnel, and will pursue and provide additional training as funding allows.

(b) Laura Jackson is the person responsible for this corrective action.

(c) This corrective action will be implemented during FY 2017.

(d) N/A

2016-013

Control over Vulnerability Management, Software Obsolescence and Security should be Strengthened

Response

We concur with the finding.

Corrective Action Plan

(a) DFA staff has undergone training from Microsoft specialist to ensure the proper use of System Center Configuration Manager (SCCM) and System Center Updates Publisher (SCUP). DFA will utilize SCCM and SCUP to ensure all systems receive regularly scheduled patch updates. Legacy programs that are no longer supported or updated as required to operate on current software platforms and hardware will be identified and replaced. DFA staff will change all passwords and default community strings to suitably complex and long passwords.

(b) Preston Pierce is the contact person for this corrective action.

(c) This change should be completed by January 2018.

(d) N/A

SIGNIFICANT DEFICIENCIES

2016-014

Codes and Clients in MAGIC have not been set to productive.

Response

We concur with the finding.

The productive indicator associated with the SOMS company code was not addressed by the SAP implementation consultants and we were not aware that it existed. During the fiscal year 2016 HORNE audit, the productive indicator was brought to our attention. The MAGIC consultants on our staff, at that time, advised us that the setting should be changed and tested during

the MAGIC upgrade. After further research, we determined that the change can be made outside of the upgrade. There is no risk of data loss because staff does not have access to the transaction codes that could cause data loss by the productive indicator not being set.

Corrective Action Plan

(a) The indicator will be set to productive.

(b) Diane Langham is the contact person for this corrective action.

(c) The change will be completed by April 30, 2017.

(d) N/A

2016-015

Controls Should Be Strengthened Over the Security Audit Log of MAGIC

Response

We acknowledge the finding.

The log was enabled in April of 2016 for all options and functions available and has been running since then. We have determined that not all of the options and functions are necessary to identify MAGIC abnormalities.

Corrective Action Plan

(a) DFA will work with the Office of the State Auditor to revise the options and functions for the log.

(b) Diane Langham is the contact person for this corrective action.

(c) The log will be revised by June 30, 2017.

(d) N/A

2016-016

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

Response:

We concur with the finding.

Agencies should use a one-time vendor for non-recurring payments and payments for non 1099-MISC services.

Corrective Action Plan

(a) A MAGIC edit prevents a one-time vendor from being used with an expenditure code that is a 1099-MISC service. The DFA Post-Audit Review Team reviews the vendor payments on a monthly basis to identify one-time vendors who have been used more than once, and contacts the agency to set up a vendor.

Rules and procedures for using one-time vendors will be included in the revised MAAPP Manual.

(b) The contact person responsible for this corrective action is Lisa Dunn.

(c) This corrective action was implemented during FY 2017 and will be monitored and adjusted for effectiveness.

(d) N/A

2016-017

Controls Should Be Strengthened Over Journal Entry Approvals and Updated Policies and Procedures Should be Produced

Response:

We concur with the finding.

DFA entries should always include appropriate documentation as an attachment when applicable. For 2017, DFA has instituted a policy to compile documentation prior to completing an adjusting entry.

For cash receipt entries, documentation is maintained on a daily basis in the form of a summary report referred to as the Daily Transmittal Form to Treasury. The summary report is not attached to the various and numerous cash documents, but is available upon request. Staff will be notified that when asked to produce support for cash receipt entries, they should provide the Daily Transmittal Form to Treasury.

In FY 2017 DFA began requiring agencies to include with all journal entries submitted for approval, the Journal Entry – Correction Request Form. This form requires the agency to provide the type of adjustment to be posted, the reason for adjustment, and the expected supporting documentation for the adjustment.

Corrective Action Plan

(a) Supporting documentation will be attached to all journal entries as applicable. The Daily Transmittal Form to Treasury will be made available to OSA staff upon request.

(b) The contact people responsible for this corrective action are Lisa Dunn and Marcus Moore.

(c) This corrective action was implemented during FY 2017.

(d) N/A

2016-018

Controls Should be Strengthened over Reports regarding the Cash Reconciliations in the Accounting System to Ensure Accuracy and Timeliness

Response:

We concur with the finding.

Post implementation of the Daily Average Cash Balance (DACB) report, DFA conducted a reconciliation identifying differences between MAGIC cash balances and amounts reported on the DACB.

Timeliness of the DACB report is impacted by nightly and daily processing. The report cannot be generated until all relevant MAGIC processes have completed. Processes run to extract data from MAGIC Monday – Friday. The DACB report, for the respective days, is generated Wednesday – Sunday. The current process ensures the completeness of the report.

Corrective Action Plan

(a) The mechanism for adjustment needs to be reviewed with Treasury staff and agreed to before correcting entries are made to resolve concerns with accuracy. The DFA will work with Treasury to improve the cash reconciliation process.

(b) The contact person responsible for this corrective action is Marcus Moore.

(c) The anticipated implementation is no later than June of 2017.

(d) N/A

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

Sincerely,



Laura D. Jackson
Executive Director

Department of Finance and Administration

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MISSISSIPPI STATE DEPARTMENT OF HEALTH

FINANCIAL AUDIT FINDINGS

March 16, 2017

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 State Department of Health 2016 fiscal year audit. Listed below is our individual response and plan for corrective action:

Audit Finding: **Management is responsible for establishing and maintaining effective internal control over financial reporting.**

2016-43 Although MSDH'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 indirect cost recovery amounts due to MSDH at year-end but submitted after the lapse period. This process does not include a review of the Department of Finance and Administration's (DFA) accruals to ensure all items requiring accrual are properly captured. Additionally, MSDH does not have an appropriate process to review, analyze and record an allowance for doubtful accounts related to services provided in the clinics.

Response: The agency concurs with this finding.

Corrective Action: Management notes this matter was partially related to beginning-of-year balances. Management has strengthened internal controls over accounts receivable and other areas during the year to establish proper cut-off procedures. MSDH is currently working to procure new software for the clinics that will streamline the process of tracking outstanding patient balances for the clinics to facilitate the above recommendations.

Name of contact person responsible for corrective action: Sharon Dowdy (cut off procedures) and Consultant and IT Staff (new software)

Anticipated completion date of corrective action: August 2017 (cut off procedures) and end of calendar year 2018 (new software)

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

Sincerely,

A handwritten signature in blue ink that reads "Mary Currier". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mary Currier, M.D., M.P.H.
State Health Officer



STATE OF MISSISSIPPI
 Phil Bryant, Governor
DEPARTMENT OF HUMAN SERVICES
 John Davis
 Executive Director

Finding and Recommendation

REPORTING

Material Weakness

2016-29 Controls Should Be Strengthened Over Account Reconciliations and Financial Reporting

CFDA Number N/A – Financial Statement Finding Only

Federal Award N/A – Financial Statement Finding Only

Federal Agency N/A – Financial Statement Finding Only

Pass-through Entity N/A

Questioned Costs None

Criteria **The Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual highlights essential types of control activities including, but not limited to:**

- **Authorization** – provide reasonable assurance that all transactions are within the limits set by policy or that exceptions to policy have been granted by the appropriate officials.
- **Review and approval** – encompass a variety of computer and manual controls that provide reasonable assurance that all accounting information has been correctly captured.
- **Reconciliation** – provide reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in agency accounting information systems.

The information system relevant to an agency's financial reporting objectives consists of the methods and records established to identify, assemble, analyze, classify, record, and report entity transactions and to maintain accountability for the related assets and liabilities. The quality of system generated financial information affects management's ability to make appropriate decisions in managing and controlling an agency's activities.

Condition

Due to the implementation of a new statewide accounting system, Mississippi Accountability System for Government Information and Collaboration (MAGIC), in fiscal year 2015, 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.

Our fiscal 2016 audit procedures resulted in audit adjustments to accounts payable, due to other governments and various transfers between agencies, some adjustments which were as a result of continuing reconciliation items related to the 2015 MAGIC implementation. Currently, accrual entries and entries involving transfers between funds and governments may sometimes be made by MDHS personnel and sometimes

by personnel at the Department of Finance and Administration. Once entries are made there does not appear to be a viable review process in place to prevent and detect errors.

Our audit also resulted in material adjusting entries to the fund statements to only include receivables that are measurable and available. Available means collectible within two months (the lapse period). However, for the statement of net assets, full accrual accounting is used and an allowance should be provided to reduce receivables to net realizable value. Currently, MDHS does not have a mechanism in place to reduce receivables to amounts collected within the lapse period. Further, there is inadequate documentation in place to support the expectation of ultimate net realizable value. Expenditures should be accrued when incurred, except notes payable are recognized when due and claims and similar obligations payable are recognized when expected to be liquidated. The audit also resulted in some

liabilities being written off that were related to the receivables that were not considered collectible.

Cause

The issues noted in this finding are primarily as a result of continuing refinement of processes associated with the implementation of a new statewide accounting system in the prior year. In addition, staff were either unaware or did not follow identified policies and procedures for completing account reconciliations and producing financial reports.

Effect

Failure to implement a timely and effective reconciliation process could:

- Increase the risk of fraud, waste, and mismanagement of funds.
- Affect MDHS' ability to effectively monitor budget execution.
- Affect MDHS' ability to accurately measure the full cost of its programs.
- Result in erroneous financial statements.

Recommendation

We recommend that MDHS enhance its reconciliation and closing journal entry review and approval process to fully document fiscal year ending balances, including all closing entries made by the Department of Finance and Administration. In addition, we recommend MDHS develop a process to identify and segregate balances which will not be settled in the lapse period which will aid in the preparation of year-end financial information and identify older reconciling items and take appropriate action to clear these items.

Repeat Finding

This is not a repeat finding.

Statistically Valid

Sample is considered statistically valid.

Views of Responsible Officials

Management at the Mississippi Department of Health and Human Services concurs with this finding. See additional comments in the Corrective Action Plan in this audit report.

Audit Adjustments to accounts payable, due to other government and various transfers between agencies

Response: We concur that the adjustments needed to be performed to accounts payable, due to other governments and various transfers between agencies, which were a continuation of reconciliation items related to 2015 MAGIC implementation. The adjustments are performed by Department of Finance and Administration according to the policies and procedures they have in place for recording the accruals for obligations to the agency. The basis of how the accruals are being performed will be continued by DFA. However, MDHS will seek assistance in making the needed adjustments related to Fiscal Year closeout and GAAP reporting. MDHS is continuing in finding the best solutions, to be effective and efficient in reviewing the entries and to detect errors.

Corrective Action Plan:

A. The following corrective action procedures will be taken:

- MDHS will review all notifications related to GAAP
- MDHS will request assistance with preparing GAAP Packets
- MDHS will review the trial balances at Fiscal Year End
- MDHS will consult with DFA regarding adjusting entries they perform
- MDHS will continue to review DFA Policies and Procedures Related to GAAP
- MDHS will continue to learn the functionality of MAGIC and the tools available in MAGIC

The process of identifying how the adjustments will be corrected has not been performed in MAGIC. The adjustment will be made once DFA provide guidance on how to proceed with creating the entries for the cumulative accruals and the transfer between funds and government

Audit adjusting entries to the fund statements and liabilities being written off

Responses: We concur with the adjustments needed to the funds balances; however, due to federal regulations these programs balances can't be written off without guidance from the program administrators. The programs claim balances are booked to account Code 21000000. These claim balances change (increase/decrease) as a result of new claims being added and/or payments being received. A journal entry is submitted to adjust the balances accordingly. The amount that appears on the trial balance is a cumulative figure. MDHS will seek assistance from the programs to be more efficient in determining what has been realized during the lapse period; to effectively make the needed adjustments.

Corrective Action Plan:

A. The following corrective action procedures will be taken:

- MDHS, Accounts Receivable will seek guidance from the Program Administrators to identify a better mechanism to record receivables collected during the lapse period.

- MDHS, Accounts Receivable will request the Program Administrators to provide an estimated collectable schedule for the current Fiscal Year.
- MDHS, Accounts Receivable, will seek guidance from the Program on how to proceed with claims they have identified as uncollectable.
- MDHS will review trial balances at Fiscal Year End to help identify any erroneous balance identified on the trial balance.
- MDHS will continue to seek guidance from DFA
- MSHS will continue to learn the functionality of MAGIC and tools available in MAGIC

No adjustment has been performed in MAGIC. The adjustment will be made once the Program Administrators have provided guidance on how to proceed with creating the entries for the cumulative balances.

DocuSigned by:



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John Davis, Executive Director



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— DEPARTMENT OF —
REVENUE
STATE OF MISSISSIPPI

Office of the Commissioner

March 15, 2017

Stacey E. Pickering, State Auditor
Office of the State Auditor
501 North West Street
Suite 801
Jackson, MS 39201

RE: Financial Audit Findings

Dear Mr. Pickering:

With respect to your audit of the financial statements of the Department of Revenue for the Fiscal Year ended June 30, 2016, we offer the following comments:

2016-005 Controls Should be Strengthened Over Adjustments to Taxpayer Accounts

Response:

We agree. MDOR went through a system upgrade from Version 9 to Version 10 of MARS at the end of FY2016. The work required for the upgrade was significant and slowed down our progress on any requests for changes to be made to the system. MDOR recognizes the importance of good internal controls and the potential impact on financial statements when those are not in place.

Corrective Action:

The system notification to monitor these types of adjustments has been developed and is now in testing. It will be in place prior to the end of Fiscal Year 2017.

Name: Jennifer Wentworth
Date: 3/15/17

2016-006 GAAP Packet Supporting Schedules Should Be Completed in a Timely and Accurate Manner

Response:

We agree somewhat. However, it is important to note that it takes a significant amount of time to reconcile the information used to create the GAAP supporting schedules. DOR is not willing to sacrifice accuracy in order to compile the schedules earlier.

Corrective Action:

DOR has reviewed the procedures followed to compile the schedules and believes that complete and accurate information can be provided to the Treasury no earlier than October 1 of each year based on the current requirements. DOR is more than willing to participate in a joint meeting with DFA, Treasury and

Stacey Pickering, State Auditor
March 15, 2017
Financial Audit Findings
Page 2

the Auditor's Office to review the process and requirements for the schedules in order to attempt an earlier completion date, if that is possible.

Name: Jennifer Wentworth
Date: 3/15/17

2016-007 Controls Should Be Strengthened Over the Reconciliation of Alcohol Beverage Control Taxes

Response:

We agree. MDOR recognizes the importance of good internal controls and the potential impact on financial statements when those are not in place.

Corrective Action:

The DOR Accounting department has developed a process to reconcile the ending un-transferred collections balances for ABC tax collections. Those reconciliations are currently being performed and will be reviewed by management. We are using a similar process to the one developed for all the other MARS tax types.

Name: Jennifer Wentworth
Date: 3/15/17

If there any questions concerning these responses, please contact Jennifer Wentworth at Jennifer.Wentworth@dor.ms.gov.

Respectfully,



Herb Frierson,
Commissioner of Revenue



FINANCIAL AUDIT FINDINGS

April 5, 2017

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 February 21, 2017, the Mississippi Division of Medicaid (DOM) is providing the following responses for the financial audit findings for the fiscal year ending June 30, 2016.

AUDIT FINDING:

2016-001 Controls Should Be Strengthened to Ensure Accurate and Timely Reconciliations are Performed between Accounting Reports and the Underlying Supporting Documentation

RESPONSE:

The Mississippi Division of Medicaid (DOM) concurs with the finding. Due to the many federal match percentages available to DOM, timing issues, timing of the availability of necessary information, and other complexities, the federal share of expenses reported on required federal financial reports will differ from the amounts initially recorded in the Mississippi Accountability System for Government Information and Collaboration (MAGIC). DOM should strengthen controls to ensure accurate and timely reconciliations are performed between accounting reports and underlying supporting documentation. The audit adjustments noted in the finding were mainly to transfer revenues and expenses recorded in MAGIC between different grants. The adjustments in the finding noted as material had \$0 effect on total federal revenue recorded in MAGIC and approximately an \$11 million effect on federal expenses recorded in MAGIC. \$11 million is less than 0.25% of FY'16 federal expenses of over \$4.3 billion.

CORRECTIVE ACTION PLAN:

A. The Mississippi Division of Medicaid will strengthen controls to ensure reconciliations are made between amounts reported on federal financial reports and amounts recorded in the Mississippi Accountability System for Government Information and Collaboration (MAGIC), and necessary adjusting journal entries will be made in MAGIC based on these reconciliations.

B. Phil Allen

C. March 9, 2017 – Procedures are in place now to strengthen these controls.

AUDIT FINDING:

2016-002 Controls Should Be Strengthened to Ensure Compliance with Laws and Regulations Regarding the Timely Preparation of Agency Financial Reports

RESPONSE:

The Mississippi Division of Medicaid (DOM) concurs with the finding. The main cause for the delay in completing annual financial statements was obtaining and/or confirming amounts to record as “Due To/Due From” other state agencies. DOM also experienced difficulties in adjusting amounts recorded as interagency transfers and utilizing the Mississippi Accountability System for Government Information and Collaboration (MAGIC) to gather information. The difficulty in adjusting amounts recorded as interagency transfers is caused by the interagency transfer process in MAGIC and incorrect guidance provided by the Department of Finance and Administration (DFA) when the MAGIC system was implemented.

CORRECTIVE ACTION PLAN:

A. The Mississippi Division of Medicaid (DOM) will strengthen controls to ensure agency financial reports are prepared timely. DOM will seek approval of an extension of time to file from the Department of Finance and Administration (DFA), or other approved action, should the “Due To/Due From” amounts received from other state agencies be delayed. If no extension of time is approved, DOM will accrue estimates for “Due To/Due From” balances if other state agencies do not respond to DOM’s request for “Due To/Due From” balance confirmations timely.

B. Phil Allen

C. September 8, 2017 – We anticipate this will be the due date of the FY'17 annual financial statements. DOM anticipates strengthening controls and procedures to ensure annual financial statements are submitted to DFA by this date.

AUDIT FINDING:

2016-003 Controls Should Be Strengthened to Ensure Accrual Entries are Accurate and Accounts and Claims Payable are Properly Recorded

RESPONSE:

The Mississippi Division of Medicaid (DOM) concurs with the finding. DOM accrues Claims Payable by estimating the amount of medical service claims that will be paid in the following fiscal year for medical services that were performed for Medicaid eligible beneficiaries on or before June 30. The first weekly medical services claims payment made by DOM in FY'17 included claims submitted by providers to DOM for the last few days of June. Therefore, DOM recorded a portion of this first weekly claims payment with an FY'16 "Received Date". DOM failed to reduce our Claims Payable accrual amount by this amount. One contributing factor to this oversight is the transition of each agency booking all of their accrual entries to splitting these duties with the Department of Finance and Administration (DFA). DFA began making accrual entries for agencies when the Mississippi Accountability System for Government Information and Collaboration (MAGIC) was implemented in FY'15. At the end of the FY'15 lapse period, DFA provided a detailed report of all accrual entries they recorded for DOM. When DOM requested this detailed report for FY'16, DOM was informed by DFA the report was not available. DOM likely would have not overlooked the DFA accrual based on the "Received Date" if a detailed report would have been provided by DFA.

CORRECTIVE ACTION PLAN:

A. The Mississippi Division of Medicaid (DOM) will strengthen controls to ensure accrual entries are accurate and accounts and claims payable are properly recorded. DOM will extract information from the Mississippi Accountability System for Government Information and Collaboration (MAGIC) to identify all accrual entries recorded by the Department of Finance and Administration (DFA) and will adjust accrual entries recorded by DOM, if applicable. We appreciate the Office of the State Auditor's offer to appeal to DFA on behalf of state agencies to provide documentation of accrual entries. Having clear information on DFA accruals will greatly enhance DOM's ability to calculate and record accruals correctly in the future.

B. Phil Allen

C. September 8, 2017 – We anticipate this will be the due date of the FY'17 annual financial

Office of the State Auditor
April 5, 2017

statements. DOM anticipates strengthening controls and procedures to ensure accrual entries are accurate and properly recorded.

Sincerely,

A handwritten signature in blue ink, appearing to read "Dzielak", with a stylized flourish at the end.

David J. Dzielak, Ph.D.
Executive Director



OFFICE OF THE STATE TREASURER
LYNN FITCH
TREASURER

FINANCIAL AUDIT FINDING

March 9, 2017

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 February 23, 2017, the Office of the State Treasurer (OST) is providing the following response for the financial audit finding for the fiscal year ending June 30, 2016.

AUDIT FINDING:

Audit Finding Heading:
Finding Number: 2016-004

Revenue Should be Recognized in the Period it is Realized or Realizable and Appropriate Accrual Entries Should be Made During GAAP Conversion

Response:

We do not concur with the audit finding.

Simply stated, accrual cannot occur where it is not known to exist.

The Office of the Attorney General of the State of Mississippi (AGO) has managed all legal negotiations for the State of Mississippi with British Petroleum (BP) for economic damages from the Deepwater Horizon oil spill that occurred in 2010. All settlement documents, correspondence, and discussions, including those detailing all payments to be received, have been and continue to be handled through the AGO. The settlement agreement was signed by the Governor and the Attorney General on September 14, 2015. This document was considered effective when the Consent Decree was entered by the Court on April 4, 2016. This agreement states that any notices are to be provided and addressed in writing to the AGO and specifically includes the banking information for the AGO account for the wiring of funds related to the settlement agreement.

OST received no official notice from the AGO or the Governor that the settlement had been signed in September 2015. Nor did we receive any official notice that the Consent Decree had been entered by the Court in April 2016. At no point, did OST receive any official notice from any State agency of any payment plan for the settlement or of any schedule of such payments. To the contrary, informal discussions between staff of the AGO and OST indicated that any money received by the State in 2016 would not be received until after the close of the fiscal year on June 30, 2016. This same understanding is reflected in the Budget Summary, 2016 Legislative Session as prepared by the Legislative Budget Office and published on June 10, 2016. On page 10 of this official State document, the \$150,000,000 BP Litigation Settlement funds are considered FY2017 revenue.

Pursuant to SB 2898, 2012 Regular Session, the proceeds from BP for economic damages from the Deepwater Horizon oil spill are to be “deposited into the Budget Contingency Fund,” which is managed by OST. By the specific language of the settlement agreement, all funds are to be received by the AGO on behalf of the State. The AGO then must transfer the funds to OST for deposit into the Budget Contingency Fund, again, pursuant to SB 2898, 2012 Regular Session. The initial payment of \$150,000,000, based on the payment schedule detailed in the settlement agreement, was received at the AGO on July 1, 2016. That initial settlement payment of \$150,000,000 was received by OST via check from the Attorney General Contingent Fund on July 7, 2016.

The funds were recorded as revenue in the Budget Contingency Fund on July 7, 2016 by OST as FY2017 revenue. Our only knowledge was that (1) the funds had been and were always expected to be received in FY2017 by the AGO, (2) the funds had been received in FY2017 by OST, (3) the funds were immediately deposited into the Budget Contingency Fund in FY2017 pursuant to our statutory duty, and (4) the LBO officially considered these funds FY2017 revenue. In the normal course of action, settlement funds go directly to the General Fund and are recorded by DFA. The procedures for the BP settlement funds were unique.

With regard to the subsequent payments to be made by BP to the State of Mississippi in calendar years 2019 thru 2033, we recognize those payments as gain contingencies. Pursuant to the terms of the settlement agreement, the remaining payments are to be made to the State of Mississippi on the anniversaries of the effective date (April 4). However, even by the terms of this agreement, there are provisions that can materially alter the actual receipt dates, and even actual receipt, of such funds.

For example, under Section 5.3 of the settlement agreement, a default by BPXP may not even occur until sixty (60) days following April 4 and pursuant to the First Guaranty Section 1(a), under such circumstances, BP Corporation North America Inc. has another sixty (60) days from

default to make good on the default, changing the fiscal year in which revenues are received. Similarly, pursuant to Section 2.1 of the Second Guaranty, B.P. p.l.c. has an additional fifteen (15) days to make good on the default, stretching the payment date 135 days past April 4, which is August.

In addition, under Sections 5.6 and 8.6 of the settlement agreement, the Primary Guaranty and/or Secondary Guaranty may be modified or replaced with a letter of credit, trust agreement, or other financial assurance. Pursuant to Section 5.7, payment dates may be accelerated if there is a change of control or act of insolvency for B.P. p.l.c. Pursuant to Section 8.6, the State of Mississippi may modify the payment schedule. Moreover, pursuant to Section 11 of the Primary Guaranty and Section 10 of the Secondary Guaranty, payment terms may at any time be amended, as well.

As the preceding two paragraphs demonstrate, there are several provisions that can materially alter the actual receipt dates, and even actual receipt, of future funds under the settlement agreement. Given these uncertainties, we recognized these payments as gain contingencies. In GASB 62, paragraph 112, the Governmental Accounting Standards Board (GASB) cautions against the recognition of a gain contingency until the underlying uncertainty is settled. To do otherwise, might result in excessively early recognition of revenue, which violates the conservatism principle, that revenues are only recognized when they are *assured* of being received. As GASB 62 notes, early recognition of revenue could be misleading to those who rely upon our financial reports.

Corrective Action Plan:

No corrective action plan is deemed necessary by the Office of the State Treasurer. OST will request that the AGO alter the payment instructions in Attachment 2 of the settlement agreement, pursuant to Section 3.2 of that agreement, to provide that payments are wired directly to the OST.

Sincerely,



Lynn Fitch
State Treasurer

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

Auditor's note to the Response from Management

TREASURY

MATERIAL WEAKNESS

Finding Number

Finding Heading

2016-004

Revenue Should be Recognized in the Period it is Realized or Realizable and Appropriate Accrual Entries Should be Made During GAAP Conversion.

Rebuttal to Agency Response:

We have reviewed the comments made by the agency in response to the above noted finding. While the Office of the State Treasurer (OST) provided many reasons and opinions while the revenue was not appropriately recognized and accrued, none of these excuses supplant generally accepted accounting principles (GAAP). Revenues are realizable when it is reasonable to expect that cash will be received in the future, and the income from the judicial settlement is both **known** and **reasonably expected** to be received.

OSA agrees with OST that no additional corrective action is necessary as the appropriate journal entries to accrue settlement revenue were approved by OST and have been correctly reported in the CAFR for fiscal year 2016.

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Office of the State Auditor
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