



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

7/19/2017

Limited Internal Control and Compliance Review Management Report

Mike Chaney, Insurance Commissioner
Mississippi Insurance Department
501 North West Street,
Suite 1001 Woolfolk Building
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi Insurance Department for the Fiscal Year 2016. In these findings, the Auditor's Office recommends the Mississippi Insurance Department:

1. Strengthen controls over bank reconciliations;
2. Strengthen controls over cash receipts to ensure compliance with state laws over transferring cash receipts to the Treasury timely;
3. Ensure compliance with the state procurement card guidelines and;
4. Ensure compliance with state laws over transferring interest earned on bank accounts to the state general fund.

Please review the recommendations and submit a plan to implement them by August 2, 2017. The enclosed findings contain more information about our recommendations.

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

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

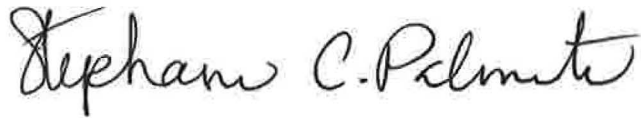
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I hope you find our recommendations enable the Mississippi Insurance Department to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Insurance Department throughout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

Sincerely,

A handwritten signature in black ink that reads "Stephanie C. Palmertree". The signature is written in a cursive, flowing style.

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

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi Insurance Department for the year ended June 30, 2016. The Office of the State Auditor's staff members participating in this engagement included Sallie Dier, CPA, Lee Alford, Katherine Landrum, Rick Kinnard, and Josh Winsley.

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

In performing our review, we noted a certain matter involving the internal control over financial reporting and instances of noncompliance that require the attention of management. These matters are noted under the headings **OTHER CONTROL DEFICIENCIES** and **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

OTHER CONTROL DEFICIENCIES

Finding: Strengthen Controls over Bank Reconciliations

Executive Summary: In order to ensure that State assets (i.e. cash) are effectively and efficiently managed, timely and adequate bank reconciliations should be performed.

Recommendation: We recommend the Mississippi Insurance Department strengthen controls over bank reconciliations to ensure reconciliations are performed from the bank accounts to MAGIC on a monthly basis.

Detailed Analysis: During our review of the bank accounts at Mississippi Insurance Department (MID) & State Fire Academy at fiscal year-end 2016, we noted all bank accounts were reconciled to a manual spreadsheet and not to the general ledger of the state-wide accounting system, the Mississippi Accountability System for Government Information and Collaboration (MAGIC).

Good internal controls provide that bank reconciliations be performed on a monthly basis. Failure to reconcile bank accounts timely could result in failure to promptly detect errors or fraudulent transactions.

Finding: Strengthen Controls over Cash Receipts to Ensure Compliance with State Laws over Transferring Cash Receipts to the Treasury Timely

Executive Summary: The Mississippi Insurance Department does not maintain an adequate audit trail to determine if revenues collected by the agency are deposited timely into the agency's clearing bank accounts or to determine if transfers from the agency's bank accounts to the state treasury are made timely in accordance with state law. State law dictates the time period allowable for agencies to transfer collections to the state treasury.

Recommendation: We recommend the Mississippi Insurance Department strengthen controls to ensure compliance with state law by ensuring that each batch of receipts (in the form of ACH transfers, checks and/or cash) can be traced in entirety to a specific deposit into the bank clearing account and/or to the treasury, each MAGIC line item can be traced back in its entirety to specific receipts from individual

companies, agents and payers of fees, cash receipts are deposited into the agency's clearing account promptly upon receipt, and transfers to the state treasury are made timely.

Detailed Analysis: While performing testwork of revenues at Mississippi Insurance Department (MID), the auditors noted that an audit trail has not been established to trace the specific receipts which make up a MAGIC line item (1) to a daily receipts log with complete supporting documentation, (2) to specific deposits into the agency's clearing account, or (3) to deposits into the State Treasury. The incomplete documentation submitted by MID does appear to indicate there is a problem with timeliness of depositing of funds into the Treasury.

Section 7-9-21, Miss. Code Ann (1972) requires agencies to deposit all funds with the state treasury by the end of the next business day following the date the funds are collected.

Accounting practices that result in an inability to trace each receipt (ACH, cash or check) to a specific deposit into the state treasury indicate a lack of internal control. Without proper control of receipts, the agency may incur a loss of investment earnings due to untimely deposit and transfer of funds. Improper control also leads to an increased risk of theft and/or misplacement of funds while they are held at the agency.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding: Ensure Compliance with the State Procurement Card Guidelines

Executive Summary: During our Fiscal Year Ending 2016 review of procurement card purchases at the Mississippi Insurance Department, we noted that procurement card statements were not signed by the cardholder as required by the Mississippi Procurement Card Guidelines.

Recommendation: We recommend the Mississippi Insurance Department ensures compliance with the State Procurement Card Guidelines by requiring authorized cardholder to sign off on monthly procurement card statements.

Detailed Analysis: During our review of procurement card purchases at the Mississippi Insurance Department for Fiscal Year Ending 2016, the auditor noted that none of the 12 monthly procurement card statements were signed by the cardholder.

Section 10.112.04 of the *Mississippi Procurement Manual* states "upon receipt of the monthly statement, the cardholder shall review all charges to assure accuracy, complete applicable dispute documents, if needed, reconcile the statement with copies of receipts and order logs, approve and sign the statement."

Failure of the authorized cardholder to reconciliation and sign off of procurement card statements may result in fraudulent or unauthorized purchases and or usage of procurement cards.

Finding: Ensure Compliance with State Laws over Transferring Interest Earned On Bank Accounts to the State General Fund

Executive Summary: Interest earned on a bank account maintained by the Mississippi Insurance Department is not being transferred to the state general fund as required by state law.

Recommendation: We recommend the Mississippi Insurance Department ensures compliance with state law by timely transferring interest earned on the agency's bank account to the state general fund.

Detailed Analysis: During our review of the bank accounts at Mississippi Insurance Department for fiscal year 2016, we noted the agency has an account earning interest that is not being transferred to the state general fund maintained by the Department of Finance and Administration.

Section 7-9-12, Miss. Code Ann. (1972) states "The State Treasurer may by regulation provide for the establishment of commercial bank accounts by any state agency, which shall serve as the depository for funds which are collected or held by state agencies and required by law to be deposited in the Treasury. All such accounts shall bear interest which shall be deposited in the General Fund."

Failure to deposit the earned interest from bank accounts timely could result in failure to promptly detect fraudulent transactions.

End of Report