



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

April 3, 2019

Financial Audit Management Report

Kelly Hardwick, Executive Director
Mississippi State Personnel Board
210 East Capital Street, Suite 800
Jackson, MS 39201

Dear Mr. Hardwick:

Enclosed for your review is the financial audit finding for the Mississippi State Personnel Board for the Fiscal Year 2018. In this finding, the Auditor's Office recommends the Mississippi State Personnel Board strengthen controls over the segregation of duties in the Statewide Payroll and Human Resource System (SPAHRs).

Please review the recommendations and submit a plan to implement them by April 17, 2019. The enclosed finding contains more information about our recommendations.

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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mississippi State Personnel Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi State Personnel Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi State Personnel Board to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi State Personnel Board throughout the audit.

If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree".

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

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor (OSA) conducts the annual audit of the State of Mississippi's *Comprehensive Annual Financial Report* (CAFR), as compiled and prepared by the Department of Finance and Administration for the fiscal year ended June 30, 2018. While OSA has not been engaged to audit your agency's financial accounting records and processes individually, we have been engaged by DFA to audit the State as a whole in accordance with Government Auditing Standards. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of the State of Mississippi's CAFR, we considered the Mississippi State Personnel Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the significant accounts selected, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Mississippi State Personnel Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, identified in this letter as item 2018-11, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Department of Mental Health are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SIGNIFICANT DEFICIENCY

<u>Finding Number</u>	<u>Finding and Recommendation</u>
2018-011	<u>Controls Should be Strengthened Over the Segregation of Duties in the Statewide Payroll and Human Resource System (SPAHRS).</u>
Repeat Finding	No.
Criteria	<p><i>The Internal Control – Integrated Framework</i> published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the <i>U.S. Government Accountability Office Standards for Internal Control in the Federal Government</i> (Greenbook) specify that a satisfactory control environment is only effective when control activities, such as proper segregation of duties, exist and are effective.</p> <p>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. 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 SPAHRS 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.</p> <p><i>The State of Mississippi's Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual</i> Section 30 – Internal Control states that each state agency implement a system of internal control in accordance with the principles of COSO, including having a proper control environment.</p>
Condition	<p>During testwork performed for fiscal year 2018, including an assessment of the internal controls of the Statewide Payroll and Human Resource System (SPAHRS), we noted the following:</p> <ul style="list-style-type: none">• Two users that had access to both the human resource/recording function (PHUSR02C) and the payroll/authorization function (PHUSR03); and• Two users with master access within SPAHRS without appropriate form approval completed by supervisor.
Cause	There are inadequate controls surrounding SPAHRS' segregation of duties, as well as the approval process for user access.

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

Recommendation We recommend the Mississippi State Personnel Board implement a processes to review individuals who have been granted access to SPAHRS to ensure that access to the system have been appropriately authorized and segregated and to implement compensating controls when proper segregation of duties is not practical.

End of Report



MISSISSIPPI STATE PERSONNEL BOARD

KELLY HARDWICK
EXECUTIVE DIRECTOR

April 16, 2019

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

Re: Financial Audit Findings

Dear Mr. White:

Thank you for your recommendations and the opportunity to respond to your letter dated April 3, 2019. The following corrective actions will enable the Mississippi State Personnel Board (MSPB) to carry out its mission more efficiently, strengthen internal controls and ensure compliance with state laws.

AUDIT FINDINGS:

Finding Number 2018-011: Controls should be strengthened over the segregation of duties in the Statewide Payroll and Human Resource System (SPAHRs).

Response # 1: MSPB concurs that a satisfactory control environment is only effective when control activities, such as proper segregation of duties exist and are effective. MSPB also agrees that when expansive segregation of duties is not practical, compensating controls should be implemented. Before addressing the Corrective Action Plan for the first condition specified in the report, these are the procedures that were in place prior to the assessment as compensating controls, in reference to Human Resources actions and Payroll processing in SPAHRs. It is the MSPB's position that these procedures (through a system of checks and balances) provide effective controls in lieu of the standard separation of duties. The addition of the one recommendation provided by Horne Cyber Solutions, LLC, will provide a record of additional oversight.

Payroll Processing & Time Reporting Procedures:

1. Each employee submits a signed timesheet (along with leave documentation) to their supervisor.
2. Each supervisor approves with signature and submits timesheets to the Personnel/Payroll Officer.
3. The Personnel/Payroll Officer (based on hardcopy timesheets) creates timesheets in SPAHRS and enters any payroll data changes requested by staff.
4. The Personnel/Payroll Officer runs a preliminary payroll report and reviews the applicable reconciliation reports available through SPAHRS.
5. The Personnel/Payroll Officer submits the timesheets to the H/R Director, along with the preliminary payroll report and a leave balance report.
6. The H/R Director reconciles the preliminary payroll report to a running electronic file to verify any changes to salaries, deductions or any applicable payroll data in SPAHRS.
7. The H/R Director reconciles the leave balance report to the hardcopy timesheets to verify the time data in SPAHRS.
8. The Personnel/Payroll Officer finalizes the payroll run in SPAHRS.

New Hire Procedures:

1. Upon the selection of a new employee, an inquiry is sent to the hiring manager from Administrative Services.
2. Based on the response, a personnel data checklist (which includes applicable agency payroll data) is completed by the H/R Director.
3. The H/R Director forwards the personnel data checklist to the Personnel/Payroll Officer.
4. The Personnel/Payroll Officer enters the data into SPAHRS; the H/R Director forwards a timesheet template to the new employee.
5. Administrative Services picks up with Steps 1 - 8 of payroll and time reporting procedures for the new employee.

Other Personnel Actions (Changes in Status):

1. After approval by the Executive Staff, a personnel action notification is forwarded to Administrative Services.
2. Based on the notification, a personnel data checklist (which includes applicable agency payroll data) is completed by the H/R Director.
3. The H/R Director forwards the personnel data checklist to the Personnel/Payroll Officer.
4. The Personnel/Payroll Officer enters the data into SPAHRS; the H/R Director reconciles SPAHRS to the personnel data checklist.
5. Administrative Services picks up with Steps 1 - 8 of Payroll and Time reporting procedures for the personnel action.

Corrective Action Plan:

At the conclusion of its assessment, Horne Cyber Solutions, LLC recommended that the MSPB insert one additional step into its Payroll Processing & Time Reporting Procedures, in effect updating all of the above procedures. The update is as follows:

1. The H/R Director should review, reconcile and approve by signature a printout of the final payroll report following the final approval in SPAHRS by the Personnel/Payroll Officer.

The corrective action was made effective on 12/20/2018.

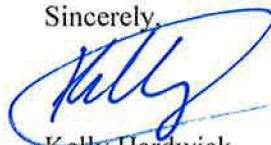
Response # 2: MSPB does not concur with the assertion that access to SPAHRS at any level is provided to staff without the appropriate approval and documentation.

Corrective Action Plan:

No corrective action is required. At the MSPB, either the Director of Administrative Services (primary) or the Director of Information Technology (secondary) completes and submits the SPAHRS Security Profile Maintenance Form (in coordination with the applicable supervisor) to the Department of Finance & Administration to request the appropriate SPAHRS access for MSPB personnel.

If the above corrective actions are not responsive to your recommendation or you have any questions, please contact Tony Moore at 601-359-6712. We commend you and your staff for their courtesy and cooperation throughout the review.

Sincerely,



Kelly Hardwick

MSPB Executive Director

KH:sg