



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
Shad White
AUDITOR

May 11, 2021

Limited Internal Control and Compliance Review Management Report

Lynn Fitch, Attorney General
Office of the Attorney General
550 High Street
Jackson, MS 39201

Dear Attorney General Fitch:

Enclosed for your review are the Limited Internal Control and Compliance Review findings for the Office of the Attorney General for the Fiscal Year 2019. In these findings, the Auditor's Office recommends the Office of the Attorney General:

1. Strengthen Controls to Ensure Compliance with State Laws over Bank Accounts; and
2. Ensure Compliance with State Laws over Contractual Service Procurements and Related Parties;

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, members of the Legislature, and federal awarding agencies 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.

I hope that you find our recommendations enable the Office of the Attorney General to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of Office of the Attorney General 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 and Compliance Audit
Enclosures

The Office of the State Auditor has completed its Limited Internal Control and Compliance Review of the Office of the Attorney General for the fiscal year ending June 30, 2019. The Office of the State Auditor's staff members participating in this engagement included Thomas Wirt, CPA, Richard Aultman, CPA, Shavonda Lott and Lee Pittman, CPA.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of internal control over financial reporting would not necessarily disclose all matters in 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 internal controls over financial reporting. This matter is noted under the heading **SIGNIFICANT CONTROL DEFICIENCY 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. In addition, we noted instances of noncompliance with state laws that require the attention of management. These matters are noted under the heading **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**.

SIGNIFICANT CONTROL DEFICIENCY AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 1: Strengthen Controls to Ensure Compliance with State Laws over Bank Accounts.

Applicable State Law and Control Criteria: Section 7-9-12, *Miss. Code Ann. (1972)*, allows agencies to request authorization from the Department of Finance and Administration and the Office of the State Treasurer to open a bank account at qualified depositories. Each bank account shall have a maximum balance to be fixed by State Treasurer.

The *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the *U.S. Government Accountability Office Standards for Internal Control in the Federal Government* (Greenbook) specify that a satisfactory control environment is only effective when control activities exist, such as proper segregation of duties. Segregation of duties is the sharing of responsibilities within a key process and dispersing the critical functions of that process to more than one person so that a single person does not have complete control over the processing of a transaction. Additionally, the *Mississippi Agency Accounting Policies and Procedures (MAAPP) manual Section 30* outlines state agency responsibilities for maintaining internal controls.

Finding Detail: During our review of the Office of the Attorney General's internal controls over agency bank accounts, we noted a lack of segregation of duties. The same individual was responsible for recording receipts in agency logs, preparing and delivering deposits to the bank, reconciling deposits to receipt logs, maintaining physical custody of checks, signing checks for authorization, preparing checks to transfer funds to the State Treasury, approving cash receipts in MAGIC, the state accounting system, and reconciling bank statements.

Additionally, we noted the agency exceeded the maximum allowable balance for two bank accounts as approved by the Department of Finance and Administration (DFA) and the Office of the State Treasurer (State Treasurer). One account had a maximum account balance allowed of \$20,000,000 and maintained month ending balances that ranged between \$20,034,699 to \$28,317,158 for 4 out of 12 months in fiscal year 2019. The other account had a maximum account balance allowed of \$5,000 and maintained month ending balances that ranged between \$5,083 to \$6,081 for 6 out of 12 months in fiscal year 2019.

Failure to adequately separate duties over bank accounts could result in misstatement of agency assets due to errors or fraud occurring without being detected promptly. Maintaining excessive bank account balances could result in a loss of investment revenue to the state.

Recommendation: We recommend the Mississippi Office of the Attorney General strengthen internal controls to ensure compliance with state laws over agency bank accounts. Duties should be adequately segregated to ensure a single individual does not have complete control over a transaction. Account balances should be maintained in accordance with amounts approved by the State Treasurer and DFA.

Agency Response:

Minimum/maximum balances:

The Attorney General's Office acknowledges that the bank balance for the accounts listed in the table above did exceed the maximum balance as approved by DFA and OST. For Account [REDACTED], the bank balance was exceeded due to the timing of significant settlement proceeds being received, but the funds not being distributed until 1-2 months after receipt. This is due to when invoices and supporting documentation are received from outside legal counsel as well as determining the portion of the settlement proceeds to reimburse the AGO for attorney time spent on the case.

For Account [REDACTED], the bank balance was exceeded due to the timing of when outstanding checks are presented to the bank for payment. Three (3) replenishment requests were prepared in FY2019 (July 2018, September 2018, and February 2019). The months of July 2018, September 2018, October 2018, February 2019, March 2019, and April 2019 were the months in which the ending bank balance was over \$5,000. This shows a direct correlation between the timing of replenishment as compared to outstanding checks clearing the bank.

Internal Controls:

The Attorney General's Office acknowledges that during FY2019, there was a lack of segregation of duties related to the bank account processes. New internal control processes have already been established since the change of administration in January 2020.

Repeat Finding: No

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: Ensure Compliance with State Laws over Contractual Service Procurements and Related Parties.

Applicable State Laws: *Section 27-104-7, Miss. Code Ann. (1972)*, promulgates the Public Procurement Review Board (PPRB) to establish a preapproved list of providers of various personal and professional services for set prices with which state agencies may contract without bidding or prior approval from the board.

Section 31-7-303, Miss. Code Ann. (1972), requires agencies to keep a record of the date or receipt of the invoice, dates of receipt, inspection and approval of goods or services before payment.

The Attorney General's Office Employee Manual Section 5.1, Contracts, states if a contract worker is granted a contract over \$50,000, either three written proposals are required or justification as a sole source procurement must be approved by the Attorney General or Chief of Staff.

Finding Detail: During our review of contractual service agreements at the Office of the Attorney General, we noted the agency awarded a contract for janitorial services to a vendor that was not preapproved by the

Public Procurement Review Board (PPRB). PPRB issued a list of three preapproved janitorial vendors for the northeast region of the state; however, the agency awarded the contract to the spouse of an Office Director employed by the agency. The scope of the contract was to perform cleaning services for the Attorney General's satellite office in Houston, MS. The vendor was paid \$9,181 during fiscal year 2019, and \$51,177 cumulatively from July of 2014 to January of 2020. Comparatively, rent for the office space was \$9,000 during fiscal year 2019, and \$48,750 cumulatively from July of 2014 to January of 2020, or less than what was paid for cleaning the office in total and monthly. Additionally, we reviewed all the monthly invoices to the vendor and noted none were marked as "okay to pay" to verify the services were received prior to payment. The office is approximately 1,010 square feet and each monthly invoice was billed for fixed biweekly visits that totaled 8 or 9 visits monthly.

Failure to adhere to state laws over contract procurements could result in contractual agreements that are not the most affordable or the best available option to accept, thus resulting in excessive costs to the state. Awarding contracts to spouses of agency employees can create potential conflicts of interest and raise questions as to whether the transactions are in the best interests of the state and the public.

Recommendation: We recommend the Office of the Attorney General ensure compliance with state procurement laws. Contractual services agreements should be awarded in accordance with Public Procurement Review Board (PPRB) *Rules and Regulations* to prevent implied or actual conflicts of interest. The agency should hire contract workers in accordance with its policy. In addition, invoices should be inspected to ensure services were received prior to payment.

Agency Response: Based on review of the contract as executed by the prior AGO administration, the Attorney General's Office acknowledges that this contract is not a preapproved vendor for Janitorial Services per PPRB manual. The square foot rate of \$.09 is higher than the preapproved vendor listing, but does not appear to be unreasonable.

Repeat Finding: No

End of Report