



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR**

Shad White
AUDITOR

December 20, 2019

Financial Audit Management Report

Laura Jackson, Executive Director / State Fiscal Officer
Mississippi Department of Finance and Administration
P.O. Box 267
Jackson, Mississippi 39205

Dear Ms. Jackson:

Enclosed for your review are the financial audit findings for the Mississippi Department of Finance and Administration (DFA) for the fiscal year ended June 30, 2019. In these findings, the Auditor's Office recommends the Mississippi Department of Finance and Administration:

1. Strengthen Controls Over the Change Logs of the Statewide Payroll and Human Resource System;
2. Require Chief Fiscal Officers of State Agencies to hold Minimum Accounting Qualifications and Attend Mandatory Training; and
3. Strengthen Controls Over the Vendor Master File and Issuance of Payments to One Time Vendors.

Please review the recommendations and submit a plan to implement them by January 10, 2020. 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.

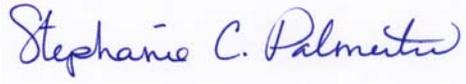
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mississippi Department of Finance and Administration's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi Department of Finance and Administration'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 Department of Finance and Administration to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Finance and Administration throughout the audit.

Mississippi Department of Finance
and Administration
December 20, 2019
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If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is written in a cursive style and is centered on the page.

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

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Mississippi for the year ended June 30, 2019. We conducted our 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. The Office of the State Auditor's staff members participating in this engagement included Stephanie Palmertree, CPA; Jason Ashley; Michael Torres, CPA; Thomas Wirt, CPA; John Newell, CPA; Camden Baird, CPA; Alan Jarrett; LaSabre Charleston; Brianna Dang; Veronica Funchess; and Kari Horn.

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 comprehensive annual financial statements, we considered DFA'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 these accounts, 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 DFA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following paragraphs, we identified certain deficiencies in internal controls that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified in this letter as items 2019-014 and 2019-015 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies identified in this letter as items 2019-016 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the State of Mississippi 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*. However, we noted certain immaterial instances of noncompliance that require the attention of management. These matters are noted under the heading **SIGNIFICANT DEFICIENCY AND IMMATERIAL NONCOMPLIANCE**.

MATERIAL WEAKNESSES

<u>Finding Number</u>	<u>Finding and Recommendation</u>
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2019-014	<u>Department of Finance and Administration Should Strengthen Controls Over the Change Logs of the Statewide Payroll and Human Resource System (SPAHRs).</u>
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Repeat Finding	Yes – 2018-008 Material Weakness finding.
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Criteria	Good internal controls dictate that all transactions and other significant events be clearly documented and readily available for examination. This audit trail, or security audit log, documentation should include evidence on how transactions are initiated, processed, recorded, and summarized. Proper audit trail documentation also includes evidence of transactions that may have been voided, deleted, or changed after approval and initiation. A “change log” should also be maintained that summarizes any changes, especially those in the production environment. Periodic reconciliations between the change log and a list of approved changes should be performed to ensure all changes have been approved and authorized.
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Condition	During testwork performed for fiscal year 2019, we noted the following: <ul style="list-style-type: none">• Security logging was not enabled in the Natural Security log settings.• Reconciliations between approved changes and changes occurring in the change log are not being performed.
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Cause	There are inadequate controls surrounding SPAHRs security logging.
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Effect	Failure to adequately log transactional changes and to periodically review logs for appropriateness could result in untimely modification of data, security configuration changes, or fictitious transactions.
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Recommendation	We recommend that the Department of Finance and Administration enable the Natural Security logging functionality and strengthen controls over the periodic review of such logs.
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2019-015	<u>The State of Mississippi Should Require Chief Fiscal Officers of State Agencies to hold Minimum Accounting Qualifications and Attend Mandatory Training.</u>
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Repeat Finding	Yes; 2016-012, 2017-006 and 2018-024; Material Weakness Findings
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Criteria	<p><i>Section 7-7-3 Miss. Code Ann. (1972)</i> states that the State Fiscal Officer (as defined by <i>Section 21-104-6 Miss. Code Ann. (1972)</i>) 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.</p> <p><i>Section 7-7-211 Miss. Code Ann. (1972)</i> 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.</p> <p><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 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.</p>
Condition	<p>During testing for fiscal year 2019, we noted, through inquiry and observation, that the overall expertise level of accounting staff in various state agencies was not consistent, and that job requirements often did not specify applicants hold any specific accounting or governmental knowledge. We also noted that, although the Department of Finance and Administration (DFA) held GAAP conversion and accounting training courses to aid state agencies in compiling financial information, it was not a mandatory requirement and often agency personnel did not attend. Likewise, qualification and skill requirements were not consistently applied to Chief Financial Officers throughout the various state agencies.</p> <p>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.</p>
Cause	Lack of consistently applied agency qualifications for accounting personnel.
Effect	The failure of the State to hire and retain competent staff could result in material misstatement of the financial statements.
Recommendation	We recommend the Department of Finance and Administration implement mandatory training sessions for accounting personnel and Chief Fiscal Officers. Additionally, we recommend the State of Mississippi implement minimum qualifications for Chief Financial Officers.

SIGNIFICANT DEFICIENCY AND IMMATERIAL NONCOMPLIANCE

<u>Finding Number</u>	<u>Finding and Recommendation</u>
2019-016	<u>The Department of Finance and Administration Should Strengthen Controls Over the Vendor Master File and Issuance of Payments to One Time Vendors to Ensure Compliance with Internal Revenue Service Regulations.</u>
Repeat Finding	Yes; 2015-032, 2016-016, 2017-003 and 2018-032; Significant Deficiency Findings
Criteria	<p>The Department of Finance and Administration (DFA) is responsible for final approval of certain types of warrants issued by the State of Mississippi. These warrants are initially approved at the Agency level and then routed to DFA for final approval. Before warrants can be approved for payment, vendor information must be entered into the State’s accounting system – Mississippi’s Accountability System for Government Information and Collaboration (MAGIC). Vendors are then assigned a unique numerical identifier so that payments can be documented and an audit trail can be reviewed.</p> <p>Occasionally, warrants need to be issued on a singular basis to vendors. These “one time vendor” warrants are assigned a default vendor number by agency and are not assigned a unique identifier. If, during the course of business, the same vendor requires additional warrants, agencies are required to request vendor information and enter the vendor into the MAGIC system, thereby assigning a unique identifier for future transactions.</p> <p>In order to comply with <i>The Code of Laws of the United States of America</i> (26 U.S.Code Section 6041) regulations on the issuance of payments of \$600 or more, DFA has written policies to prohibit the use of the “one time vendor” distinction for any person or business issued a warrant for over \$600 for services rendered. DFA has classified certain expense general ledger accounts as “1099 vendor accounts” and will not approve warrants to any “one time vendor” when these general ledger accounts are expensed.</p>
Condition	<p>During testwork performed for the fiscal year 2019 audit, we noted the following exceptions:</p> <ul style="list-style-type: none">• 1,963 instances in which the vendors classified as one time vendors were paid multiple warrants from the same state agency; therefore, vendor information was not appropriately requested or entered in the vendor master file.• Vendor master file data was not reviewed to ensure accuracy and completeness including W-9 Information.
Cause	DFA does not have adequate controls over the review of vendor master data.
Effect	Failure to periodically review vendor master data to ensure accurate and complete vendor information has been requested and entered can lead to an increased risk of creating fictitious, incorrect, or duplicate payments and a possible misstatement of

financial position. Additionally, failure to review one time vendor payments could result in erroneous tax reporting.

Recommendation We recommend that the Department of Finance and Administration strengthen policies over the use of the one-time vendor code and conduct a regular review of the vendor master file to ensure complete and accurate vendor information has been entered.

End of Report



STATE OF MISSISSIPPI
GOVERNOR TATE REEVES

DEPARTMENT OF FINANCE AND ADMINISTRATION

February 11, 2020

FINANCIAL AUDIT FINDINGS

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

Dear Mr. White:

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

AUDIT FINDINGS:

MATERIAL WEAKNESS

Finding Number

Finding Description

2019-014

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

Response:

We acknowledge the finding.

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

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

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

Corrective Action:

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

2019-015

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

Response:

We acknowledge this finding.

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

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

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

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

Corrective Action Plan

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

D. N/A

Finding Number

Finding Description

2019-016

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

Response:

We acknowledge this finding.

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

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

Corrective Action Plan

A. The audit finding recommendation is for DFA to strengthen policies over the use of the one-time vendor code and conduct a regular review of the vendor master file to ensure complete and accurate vendor information has been entered. DFA does not pre-audit payments under \$1,000.00, therefore DFA has no control over the agencies' use of the one-time vendor code for payments under \$1,000.00. DFA currently conducts post-audit reviews of those payments under \$1,000.00, and notifies the agencies of any violations that are noted.

Corrective Action: DFA will implement periodic

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

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

Sincerely,

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

Liz Welch
Interim Executive Director