



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

December 18, 2019

Financial Audit Management Report

Honorable Lynn Fitch, State Treasurer
Office of the State Treasurer
P. O. Box 138
Jackson, MS 39205

Dear Treasurer Fitch:

Enclosed for your review is the financial audit finding for the Office of the State Treasurer for the Fiscal Year 2019. In this finding the Auditor's Office recommends the Office of the State Treasurer:

1. Strengthen Controls to Ensure Reports Issued Are Correct for End User

Please review the recommendation and submit a plan to implement it by January 2, 2020. The enclosed finding contains more information about our recommendation.

During future engagements, we may review the finding in this management report to ensure procedures have been initiated to address this 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 Office of the State Treasurer'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 Office of the State Treasurer'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 recommendation enables the Office of the State Treasurer to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Office of the State Treasurer throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink, reading "Stephanie C. Palmertree", is located below the "Sincerely," text.

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 selected accounts included on the financial statements of the Office of the State Treasurer for the year ended June 30, 2019. These financial statements will be consolidated into the State of Mississippi's *Comprehensive Annual Financial Report*. 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 Angela Mire, CPA, Kristi Goodson, Phillip Chu, CPA, Michael Walker, CPA and Clayton Southerland, CPA.

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 selected accounts included on the financial statements, we considered the Office of the State Treasurer'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 the Office of the State Treasurer'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 deficiency in internal control, identified in this letter as item 2019-009, that we consider to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Office of the State Treasurer 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*.

Finding and Recommendation

SIGNIFICANT DEFICIENCY

2019-009	<u>Strengthen Controls to Ensure Reports Issued Are Correct for End User</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 such as reports, identifies, captures, and communicates pertinent information in a form and timeframe that enables people to carry out their responsibilities.
Condition	<p>During review of “Equity in Internal Investment Fair Market Value Adjustment”, auditor noted support from QED (Treasury’s Internal Investment Software) did not agree to confirmed amounts. Inquiry with Treasury Investment Director noted the third party used to maintain market information for treasury internal system (QED) was not properly updating the system to reflect market values. The initial report showed a market loss of \$21,263,911.52; however, the confirmed amounts showed a market gain of \$3,511,324.57.</p> <p>Department of Finance and Administration (DFA) will adjust equity in internal investment on a yearly basis to market value of investments. Correct fair market value was not used in adjustment of asset account equity in internal investment pool. This resulted in an understatement of \$24,775,236.09 to the statewide equity in internal investment pool.</p>
Cause	Agency worked with a third party to correct internal systems to display market values properly; however, agency did not provide corrected copies of report to users.
Effect	Failure to reissue corrected reports in a timely manner resulted in an erroneous entry into the State Accounting System MAGIC. Equity in Internal Investment was understated for fiscal year 2019 and required an audit adjustment.
Recommendation	We recommend the Office of the State Treasurer strengthen controls to ensure reports issued are correct for end user.

End of Report



OFFICE OF THE STATE TREASURER
LYNN FITCH
TREASURER

FINANCIAL AUDIT FINDINGS

January 8, 2020

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

Dear Mr. White:

In accordance with your correspondence dated December 18, 2019, the Office of the State Treasurer (OST) is providing the following response for the financial audit finding for the fiscal year ended June 30, 2019.

AUDIT FINDINGS:

2019-009 Strengthen Controls to Ensure Reports Issued Are Correct for End User

Response: We acknowledge this finding and will strengthen controls with the Department of Financial Administration (DFA) to ensure any information delivered for financial reporting purposes is finalized, or if not, will be noted as preliminary until finalized reports are available.

Corrective Action Plan:

- A. OST has strengthened controls to ensure reports issued are correct for end user. Any requests from DFA for fiscal year reporting purposes will be delivered and noted as preliminary, unless already determined as final for OST fiscal year end reporting. Once OST has completed fiscal year reporting and finalized reports, any reports requiring revisions will be delivered as final to DFA.
- B. Justin Smith – Director of Investments, Cash Management, & Collateral

C. July 1, 2020

D. N/A

Sincerely,

A handwritten signature in cursive script, reading "Lynn Fitch". The signature is fluid and stylized, with the first and last names being more prominent than the middle name.

Lynn Fitch
Treasurer
State of Mississippi