



**Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing  
Standards**

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For the year ended June 30, 2020

**SHAD WHITE**  
**State Auditor**

**Stephanie C. Palmertree, CPA, CGMA**  
*Director, Financial and Compliance Audit Division*  
**Angela Mire, CPA**  
*Director, Agency Audit Division*



*The Office of the State Auditor does not discriminate on the basis of  
race, religion, national origin, sex, age or disability.*



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

May 28, 2021

Honorable Tate Reeves, Governor  
State of Mississippi  
P.O. Box 139  
Jackson, Mississippi 39205

Ms. Liz Welch, Executive Director  
Department of Finance and Administration  
501 North West Street  
Suite 1301, Woolfolk Building  
Jackson, Mississippi 39201

Governor Reeves, Members of the Legislature, and Citizens of the State of Mississippi,

The Office of the State Auditor has recently completed the *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* for the year ended June 30, 2020. This report, which provides information on controls and compliance by the state agencies as reported in the State of Mississippi's *Annual Comprehensive Financial Report*, contains information on material weaknesses, significant deficiencies and instances of noncompliance which were considered to be material to the State of Mississippi. This report also includes appropriate recommendations for correction of these findings, as well as the agency's responses to the findings and the intended corrective actions.

Copies of this report will be available through the State Auditor's Office web site on the Internet at <http://www.osa.state.ms.us>. Should you have any questions, please feel free to contact Stephanie Palmertree, CPA, CGMA, at (601) 576-2606.

Sincerely,

A handwritten signature in black ink, appearing to read "Shad White", with a large, stylized loop at the end.

Shad White  
State Auditor

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# State of Mississippi

**Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards***

for the Fiscal Year Ended June 30, 2020



**Shad White**

State Auditor

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

**INDEPENDENT AUDITOR'S REPORT ON**  
**INTERNAL CONTROL OVER FINANCIAL REPORTING**  
**AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF**  
**FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE**  
**WITH *GOVERNMENT AUDITING STANDARDS***

The Governor, Members of the Legislature and Citizens of the State of Mississippi

We have audited, in accordance with the 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 financial statements 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 (the State), as of and for the year ended June 30, 2020, and the related notes to the financial statements which collectively comprise the State's basic financial statements, and have issued our report thereon dated March 24, 2021. Our report includes a reference to other auditors who audited the financial statements of the following, as described in our report on the State of Mississippi's financial statements:

▪ Government-wide Financial Statements

• Governmental Activities

- the Department of Environmental Quality Clean Water State Revolving Loan Fund, the Department of Health Local Governments and Rural Water Systems Improvements Revolving Loan Fund, the State Agencies Self-Insured Workers' Compensation Trust Fund, and selected funds at the Community College Board, Department of Corrections, Department of Marine Resources, the Mississippi Development Authority, and the Department of Public Safety, which, in the aggregate, represent 5 percent, 9 percent, and 4 percent, respectively, of the assets, net position, and revenues of the governmental activities;

• Business-type Activities

- AbilityWorks, Inc. within the Department of Rehabilitation Services, the Port Authority at Gulfport, the Mississippi Prepaid Affordable College Tuition Program, the Veterans' Home Purchase Board, and the Department of Finance and Administration State Life and Health Plan which, in the aggregate, represent 68 percent, 76 percent, and 32 percent, respectively, of the assets, net position, and revenues of the business-type activities;

• Component Units

- the Universities and the nonmajor component units.

- Fund Financial Statements

- Governmental Funds

- the Department of Environmental Quality Clean Water State Revolving Loan Fund, the Department of Health Local Governments and Rural Water Systems Improvements Revolving Loan Fund, the State Agencies Self-Insured Workers' Compensation Trust Fund, and selected funds at the Community College Board, Department of Corrections, Department of Marine Resources, the Mississippi Development Authority, and the Department of Public Safety, which, in the aggregate, represent 15 percent, 13 percent, and 2 percent, respectively, of the assets, fund balance, and revenues of the governmental activities;

- Proprietary Funds

- the Port Authority at Gulfport, the Mississippi Prepaid Affordable College Tuition Program, and the Department of Finance and Administration State Life and Health Plan which are considered major enterprise funds which, in the aggregate, represent 67 percent, 66 percent, and 30 percent, respectively, of the assets, fund balance, and revenues of the proprietary funds;

- Aggregate Remaining Funds

- Nonmajor enterprise funds for AbilityWorks, Inc. within the Department of Rehabilitation Services and the Veterans' Home Purchase Board;
    - Other Employee Benefits Trust Fund – State Life and Health Insurance Plan;
    - the Pension Trust Funds;
    - the Private-Purpose Trust Funds of the Mississippi Affordable College Savings Program;

all of which represent 99 percent, 100 percent, and 100 percent, respectively, of the assets, net position, and revenues of the aggregate remaining funds.

Except for the major component unit Universities, this report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. This report does not include the results of the other auditor's testing of internal control over financial reporting and compliance and other matters for the major component unit Universities that are reported on separately by those auditors.

The financial statements of the Mississippi State University Foundation, Inc., the University of Mississippi Foundation, the University of Southern Mississippi Foundation, the University of Mississippi Medical Center Educational Building Corporation, the University of Mississippi Medical Center Tort Claims Fund, the State Institutions of Higher Learning Self-Insured Workers' Compensation Fund and the State Institutions of Higher Learning Tort Liability Fund, which were audited by other auditors upon whose reports we are relying, were not audited in accordance with *Government Auditing Standards*, and accordingly this report does not include reporting on internal control over financial reporting compliance and other matters associated with these funds or entities.

## **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we and other auditors considered the State of Mississippi's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Mississippi's internal control.

Our and the other auditors' 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 have not been identified. However, as described in the accompanying "Schedule of Findings and Questioned Costs: Part 2 – Financial Statement Findings", we and other auditors did identify certain deficiencies in internal control 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 described in the accompanying "Schedule of Findings and Questioned Costs: Part 2 – Financial Statement Findings" as items 2020-001, 2020-002, 2020-003, 2020-004, 2020-006, 2020-007, 2020-008, 2020-009, 2020-010, 2020-011, 2020-012, 2020-014, 2020-015, 2020-016, 2020-018, 2020-019, 2020-020, 2020-021, and 2020-022 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 described in the accompanying "Schedule of Findings and Questioned Costs: Part 2 – Financial Statement Findings" as items 2020-005, 2020-013, and 2020-017 to be significant deficiencies.

We and the other auditors also noted certain matters involving the internal control over financial reporting, which we have reported to management of the applicable state agencies and institutions of the State of Mississippi in separate communications.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Mississippi's financial statements are free from material misstatement, we and other auditors 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 financial statements. 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.

We and the other auditors also noted certain matters which we have reported to management of the State of Mississippi in separate communications.

## **Management's Response to Finding**

Management's response to the findings identified in our audit is described in the accompanying "Management's Response and Corrective Action Plan" section. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Mississippi'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 entity'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.



**Stephanie C. Palmertree, CPA, CGMA**

Director, Financial and Compliance  
Audit Division

Jackson, Mississippi  
March 24, 2021

**Schedule of Findings and Questioned Costs:  
Part 1  
Summary of Auditor's Results**



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STATE OF MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2020

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PART 1 – SUMMARY OF AUDITOR’S RESULTS

*Financial Statements*

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?

X Yes      \_\_\_ No

- Significant deficiencies identified?

X Yes      \_\_\_ No

Noncompliance material to financial  
statements noted?

\_\_\_ Yes      X No

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**Schedule of Findings and Questioned Costs:**  
**Part 2**  
**Financial Statement Findings**



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STATE OF MISSISSIPPI

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2020

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PART 2 – FINANCIAL STATEMENT FINDINGS

**Finding Number**      **Finding and Recommendation**

**DEPARTMENT OF CORRECTIONS**

**MATERIAL WEAKNESS**

**2020-018**                      Strengthen Controls Over Financial Reporting – GAAP Package.

**Repeat Finding**              Yes; 2018-004; Material Weakness finding.

**Criteria**                      Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all Funds.

**Condition**                      There were several instances of adjustments that were needed to properly state the financial statements due to lack of proper management review of key entries, accounts, and supporting worksheets used in Fund's GAAP Package Reporting process.

- The Funds' process related to the accrual process for medical services accounted for in the Medical Fund does not provide sufficient detail to support the accrual amount recorded. The accrual is determined at a point in time based on certain information; however, the information is not maintained. Additionally, complicating the accrual process is a significant lag time of receipt of the medical bills related to the services being performed. In reviewing the medical bills, the invoices related to medical services were posted sometimes four months from when the services were performed.
- The Funds have several contractual relationships related to inmate services and the GAAP Packages did not accrue these invoices related to these services in the Private Prison Fund and Regional Prison Fund. The accrual process incorrectly indicated that these invoices were related to budget period 2021 as a result of a Senate Bill indicating that there were funds appropriated in 2021 to fund 2020 expenditures and therefore not included in the GAAP Package accruals.
- The Funds do not have documented evidence of controls over review of the monthly reporting package by management for all funds.

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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Additionally, the recordkeeping and organizational system of the underlying calculations and worksheets used in the GAAP Package Reporting process is disorganized and not conducive to easy supervisory review and approval.

**Cause**

The accounting policies and procedures of the Funds didn't provide for a sufficiently detailed level of supervisory challenge, review and approval of the underlying and supporting worksheets and calculations used in GAAP Package Reporting. Additionally, the recordkeeping and organizational system of the underlying and supporting calculations and worksheets is not conducive for easy supervisory review and approval.

**Effect**

Audit adjustments of approximately \$11,800,000 were required to correct material misstatements identified in the Fund's financial statements.

**Recommendation**

Management should implement a more detailed process for the review and approval of GAAP Package Reporting. As a part of this process, the individual underlying and supporting worksheets and calculations should be subject to independent challenge, review and approval at a sufficiently detailed level whereas calculation and other errors are prevented and detected in a timely manner.

Management should implement a process specifically related to the medical fund to track and account for the medical services being provided to help identify incurred but not yet reported claims.

Additionally, we recommend Management implement a more formalized organizational system for the underlying calculations and worksheets that includes cross-references to support, detailed support for Fund's Agency GAAP Adjustments and reconciliations sufficient to support the balances reported.

**Views of Responsible Officials**

Management has already changed the process for completing transactions in MAGIC. Support documentation will consist of all line items associated with transactions and support the total amount of the transaction prior to approval. The Director of Fiscal Affairs will be the final approval on these transactions and ensure supporting detail is attached in MAGIC.

The Accounting Department will work with the Medical Compliance Department to develop a monthly report identifying all offenders' incurring medical bills on a monthly basis. The Accounts Payable Team will cross-reference the monthly report with monthly payments to identify outstanding invoices for research and follow-up. This will ensure invoices are processed timely.

The agency has implemented a process in which all fund transfers are reconciled and processed on a monthly basis with support documentation uploaded in MAGIC.

See additional information in Management's Corrective Action Plan at page 47.

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**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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**2020-019**                      Strengthen Controls Over Canteen Services Compensation.

**Repeat Finding**              No.

**Criteria**                      Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all Funds.

*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* (Green Book) specify that a satisfactory control environment is only effective when there are adequate control activities in place. Effective control activities dictate that reconciliations of accounting data be timely and detailed in order to ensure accuracy and reliability.

**Condition**                      The Funds has contracted with Premier Supply Link, LLC (Premier) to provide canteen services to the Funds’ inmates statewide. The contract is a net-of-fee contract whereby Premier provides canteen services and the Fund is compensated based on a determined percentage of the retail sales of canteen items to the Funds’ inmates. The Funds rely on Premier invoices and supporting documentation related to retail sales to determine the Funds’ compensation accounted for in the Inmate Welfare Fund. There is no review of Premier’s monthly calculation of the Funds’ compensation and verification of the retail sales and supporting documentation.

**Cause**                              The Funds’ accounting policies and procedures do not provide for verification of the canteen sales.

**Effect**                              The lack of proper controls over canteen commissions could allow for inadvertent errors or fraud related to canteen commissions.

**Recommendation**              Management should implement a more detailed process for the review and approval of the canteen services compensation. As a part of this process, management should consider performing an annual audit of the canteen services information utilized to determine the canteen compensation. Additionally, The Fund should consider having Premier obtain a Service Organization Control (SOC) 1 report to provide independent verification of adequacy of their system of controls.

**Views of Responsible Officials**

The agency will enforce MDOC Policy 02-10, Canteen Operations, which stipulates canteen funds will be independently audited and require annual financial status report. The agency will look into amending the terms of the contract with Premier Supply Link, LLC to include sufficient language stipulating the agency’s discretion to audit financial records and require retention of such records for a specified period of time. The agency is in the process of hiring an internal auditor whose duties will include a monthly review of canteen services compensation and annual financial status report.

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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The agency will consider requirement of the Service Organization Control (SOC) 1 report to provide independent verification of adequacy of vendor's system of controls.

See additional information in Management's Corrective Action Plan at page 48.

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**2020-020**                      Strengthen Controls Over Contract Payments.

**Repeat Finding**            No.

**Criteria**                      Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all Funds.

*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* (Green Book) specify that a satisfactory control environment is only effective when there are adequate control activities in place. Effective control activities dictate that reconciliations of accounting data be timely and detailed in order to ensure accuracy and reliability.

*Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual Section 08.30.10*, states "Purchase Orders should be created for all items with a contract, even if the items do not require a PO. This will allow for posting of the final invoice payment after the contract has expired. If the contract expires before the final payment, and no PO has been created, then direct invoices cannot be created against the contract."

**Condition**                      The Fund has contracted with several different entities to provide residential services to the Funds' inmates. The contract fee is based on inmates assigned to the facility as established by the Midnight Strength Report. The contract fees allow for a minimum guarantee based on levels of inmate population as established by the contract and then additional fee for populations being serviced over the population covered by the minimum guarantees.

We reviewed several invoices related to the contractual payments and noted the following discrepancies, while these items were not material, they indicate lack of detailed review to provide assurance that payments were proper for the Private Prison Fund and Regional Prison Fund:

- The total fee on the invoices for a facility was based on daily inmate population at a determined per diem rate except for the 14th day on the invoice that had a different per diem rate.

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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- Several invoice totals did not calculate correctly but were still paid at the amount due on the invoice.
- Invoices that the check was written for an amount more than the total amount due on the invoice without any adjustment noted on the invoice indicating a different amount was due.
- Invoices based on inmate populations that were different than the Midnight Strength Report.
- Invoice that noted the inmate population was for the period April 2020 but the detail of the inmate population by day had dates of March 2020.

In addition, we reviewed all the contracts utilized by the Funds and noted the Funds did not issue a purchase order for a contractual purchase to ensure final payment of invoice. Utilizing purchase orders is a requirement in the MAAPP Manual and also serves as a control in the statewide accounting system (MAGIC) to ensure contracts are not overpaid.

**Cause** The Funds' accounting policies and procedures do not require purchase orders for final payment of contracts nor does it provide for independent records with which to validate the inmate population or an audit of the inmate population information.

**Effect** The lack of effective internal control activities over contract payments could allow for inadvertent errors, such as calculation errors; payments for unauthorized purposes or excessive amounts, resulting in improper contract payments.

**Recommendation** Management should develop and implement a more detailed process for the review and approval of the residential services contractual fee to ensure contract payments are appropriate. The process should include a documented evidence of review and approval of the inmate population, the per diem rate, the mathematical accuracy of the invoice, and the guarantee minimum contractual arrangement. Management should consider requiring the various vendors with the guarantee minimum contractual arrangements include a year to date amount compared to the guarantee minimum to ensure appropriate contractual payments.

As a part of this process, Management should consider performing an annual audit of the residential services information utilized to determine the contractual fee to ensure compliance with the contractual arrangements. Management should also consider utilizing purchase orders to track contractual payments and ensure compliance with state laws and rules and regulations set forth by the Mississippi Department of Finance and Administration over contractual expenditures.

**Views of Responsible Officials** MDOC will address finding through staff training. Accounts Payable staff will be required to reference contract number on vendor invoice, verify mathematical computations, initial and date invoice indicating verification of rates consistent with contract per diem and/or minimum guarantee rates; verify funds are available on

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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contract and attach the verified invoice in MAGIC.

The agency will enforce its discretion to audit financial records on an annual basis and require retention of such records for a specified period of time. The agency is in the process of hiring an internal auditor whose duties include audit of contractors' financial records and annual financial status report.

See additional information in Management's Corrective Action Plan at page 49.

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**2020-021**

**Strengthen Controls Over Contract Payments.**

**Repeat Finding**

No.

**Criteria**

Management is responsible for establishing and maintaining effective internal controls over transaction cycles. Segregation of duties is a fundamental element of internal controls. The basic principle underlying segregation of duties is that no one person or group of employees should be in a position to commit and conceal errors or fraud in their day-to-day jobs. Segregation of duties serves two key purposes: It ensures that there is oversight and review to catch errors. It also helps to prevent fraud or theft because it requires two people to collude in order to hide a transaction. Hence, separation of duties is the means by which no one person has sole control over the lifespan of a transaction. No one person should be able to initiate, approve, record, reconcile, and review reports related to a transaction.

**Condition**

The accounting director for the Funds' has the ability to set up a new vendor and authorize a payment.

**Cause**

The Funds' current accounting procedures do not provide for sufficient segregation of duties with respect to the cash disbursement process or appropriate compensating controls to mitigate the risk.

**Effect**

The lack of proper internal controls over the cash disbursement increases the risk of errors or fraud to go undetected.

**Recommendation**

The Fund should review the current accounting procedures over the cash disbursements process and evaluate the proper segregation of duties related to the accounting director.

**Views of Responsible Officials**

MDOC will review accounting procedures to strengthen controls to ensure proper segregation of duties over the cash disbursements process.

See additional information in Management's Corrective Action Plan at page 50.  
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**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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<b>2020-022</b>	<u>Ensure Compliance With State Laws and Regulations Over Accounting Systems.</u>
<b>Repeat Finding</b>	No.
<b>Criteria</b>	<p>Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow Management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all Funds.</p> <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> (Green Book) specify that a satisfactory control environment is only effective when there are adequate control activities in place. Effective control activities dictate that reconciliations of accounting data be timely and detailed in order to ensure accuracy and reliability.</p> <p><i>Section 7-7-3, Miss. Code Ann. (1972)</i> establishes the Department of Finance and Administration (DFA) as the General Accounting Office for the State of Mississippi and authorizes DFA to prescribe the accounting system for state agencies. Additionally, it establishes that the Mississippi Management and Reporting System (MMRS) is responsible for an executive information system within state government to include a centralized automated accounting system, a centralized automated human resource/payroll system for state agencies and the automation of performance programmatic data and other data as needed by the legislative and executive branches to monitor the receipt and expenditure of funds in accordance with desired objectives.</p>
<b>Condition</b>	<p>MDOC utilizes QuickBooks accounting software for funds received as well as transfers made between funds. Quickbooks is utilized as a clearing account by MDOC to record receipt transactions and then checks are cut to the State Treasury to move the funds from a MDOC account into a State Treasury account. The account currently has \$27,148 balance and for fiscal year June 30, 2020 had approximately \$8.2 million of receipts, \$8.1 million of checks cut to State Treasury and \$117,000 of checks cut to various vendors. The checks cut to vendors do not specify the fund to which the activity is related nor is it easily determinable whether the activity has been recorded into MAGIC. The Funds reconcile amounts entered into QuickBooks accounting software to MAGIC monthly; however, there were several months that the activity was not recorded into MAGIC timely. The Funds, year-end GAAP adjustments were noted to be large transactions summarizing the detailed transactions input into QuickBooks. These large transactional journal entries do not contain sufficient detail to adequately describe and define the accounting transactions, and do not provide an adequate audit trail for the recording of assets and transactions.</p>
<b>Cause</b>	<p>Lack of effective internal control activities dictating reconciliations of accounting data be timely and detailed in order to ensure accuracy and reliability.</p>

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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**Effect** Failure to record transactions timely into MAGIC may result in transactions not being properly recorded in statewide accounting system, MAGIC, and not included in the Funds' fiscal year financial statements. Additionally, use of the Quickbooks system as an accounting system allowed personnel of the Funds to circumvent the established controls inherent in the MAGIC system.

**Recommendation** The Funds' should ensure compliance with state laws and rules and regulations set forth by the Mississippi Department of Finance and Administration over accounting systems. Additionally, we recommend that any third party accounting systems utilized are properly reconciled on a monthly basis with detailed transactional journal entries and timely recording of transactions into MAGIC.

**Views of Responsible Officials** MDOC will identify agency managed bank accounts that will serve as depository for self-generated funds or custodial funds not required by law to be deposited in the State Treasury in accordance with Mississippi Code Annotated Section 7-7-59; and collection or clearing account for funds required by law to be deposited in the State Treasury in accordance with Mississippi Code Annotated Section 7- 9-12. The agency will submit the appropriate Agency Bank Account Request Form to the Department of Finance and Administration for approval on all agency managed bank accounts and update change requests as necessary. The agency will ensure all transactions are reconciled on a monthly basis.

See additional information in Management's Corrective Action Plan at page 50.

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**STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART – 2 Financial Statement Findings (continued)**

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**DEPARTMENT OF EDUCATION**

**MATERIAL WEAKNESS**

**2020-012**                      Strengthen Controls Over the Preparation of the Federal Grant Activity Schedule.

**Repeat Finding**              No.

**Criteria**                      *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* (Green Book) specify that a satisfactory control environment is only effective when there are adequate control activities in place. Effective control activities dictate that a review is performed to verify the accuracy and completeness of financial information reported. The Federal Grant Activity Schedule contains information such as Catalog of Federal Domestic Assistance (CFDA) numbers and grant identification numbers that must be properly recorded. Additionally, the Schedule captures amounts that must be accurate and complete in order to ensure the accuracy of financial and federal information reported on such schedule.

*The Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual Section 27.30.60* states, “The Federal Grant Activity schedule supports amounts reported on the GAAP Packet for federal grant revenues, receivables, deferred revenues and expenditures. The schedule is also used for preparing the Single Audit Report required by the Single Audit Act, Office of Management and Budget Circular A-133 and the State’s audit requirements. The amounts on this schedule should be reconciled by the agency with amounts reported on federal financial reports.”

**Condition**                      During our testwork for the Federal Grant Activity Schedule, we noted the following exceptions:

- Ten out of 122 items sampled on the Grant Schedule form 27.30.60 in which the CFDA Numbers recorded for the federal programs did not agree to the Agency Program Index located in the *2020 Catalog of Federal Domestic Assistance* at [beta.sam.gov](http://beta.sam.gov).
- Six out of 84 items sampled on the Subgrant Schedule form 27.30.70 in which the amount did not include the transactions recorded during the 60 days after fiscal year end, or the “lapse period”. The total amount of transactions not included was \$3,432,187.49
- Three out of 84 items on the Subgrant Schedule form 27.30.70 in which the subgrantees’ expenditures per Mississippi Accountability System for Government Information and Collaboration (MAGIC) and the Schedule of Expenditures of Federal Awards (SEFA) were not properly recorded in the column for amounts passed to sub-grantees on the Grant Schedule

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form 27.30.60.

- One out of 122 lines on the Grant Schedule form 27.30.60 in which the grant award amount did not include the total authorized cumulative amount awarded to the agency from the federal government. Due to this error on the grant schedule, the total expenditures reported for this federal program exceeded the grant award amount by \$53,604,252.

**Cause** Lack of appropriate personnel oversight and inadequate review by Agency personnel.

**Effect** Failure to properly ensure the Catalog of Federal Domestic Assistance (CFDA) numbers, grant numbers, and “Amount Passed to Subrecipients” are correct on the Federal Grant Activity Schedule could result in reporting errors on the State’s Single Audit Report.

**Recommendation** We recommend the Mississippi Department of Education strengthen controls over the preparation of the Federal Grant Activity Schedule to ensure all grant award information and amounts reported are accurate and correct.

**Views of Responsible Officials** Although the MDE concurs with the finding, the MDE does not agree that a “lack of appropriate personnel oversight” was the cause of the finding.

See additional information in Management’s Corrective Action Plan at page 53.

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DEPARTMENT OF EMPLOYMENT SECURITY

MATERIAL WEAKNESS

**2020-006**                      Controls Should Be Strengthened Over the Reconciliation of the State’s Financial Accounting System to the Third Party Unemployment Software – ReEmploy.

**Repeat Finding**              No.

**Criteria**                      *The Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), specifies that a satisfactory control environment is only effective when control activities, such as proper segregation of duties, exist and are effective. Proper segregation of duties is essential to minimizing the risk of fictitious transactions and misstated financial position.

**Condition**                      The Mississippi Department of Employment Security (MDES) submitted the accrual amount entries for the accounts “Claims Payable”, “Federal Income Tax (FIT) Withholding payable”, and “Due to Other Funds” to the Department of Finance and Administration (DFA) in the statutorily required GAAP Package. Upon review of the claims detailed report from ReEmploy (the third party vendor utilized by MDES to enter, track, and monitor unemployment claims data) it was determined that the accrual entries made in the GAAP Package were not correct. We reviewed the accounts payable detail and the payments made to claimants from July 1, 2020 through December 10, 2020 with Claim Week Ending June 30, 2020 or before, and determined the total Claims Payable, FIT Withholding Payable, and Due to Other Funds entry amounts were improperly accrued.

As a result:

- Claims Benefits Payable was overstated by \$179,423,666;
- Federal Income Tax (FIT) Withholding Payable was overstated by \$7,953,401;
- Due to Other Funds was overstated by \$778,122;
- Subsidies Loans and Grants was overstated by \$188,155,18;
- Federal Revenue was overstated by \$189,747,435; and
- Due from Federal Government was overstated by \$189,747,435.

Additionally, MDES submitted the accrual amount entries for the accounts “Accounts Receivable” and “Allowance for Uncollectable Accounts Receivable” to DFA in the statutorily required GAAP Package. Upon review of the receivable detailed report from ReEmploy, it was determined that the accrual entries made in the GAAP Package were not correct. It was determined the Accounts Receivable

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and Allowance for Uncollectable Accounts Receivable entry amounts were improperly accrued.

As a result:

- Subsidies, Loans, and Grants was understated by \$19,951,628;
- Accounts Receivable was overstated by \$161,551,642;
- Allowance for Uncollectable Accounts Receivable was overstated by \$141,600,014;
- Due from Federal Government was understated by \$19,951,333;
- Unearned Federal Revenue was overstated by \$295; and
- Federal Revenue was understated by \$19,951,628.

**Cause**

MDES did not properly reconcile amounts amalgamated in the reports from ReEmploy to the financial information. Based on information submitted by MDES personnel for query to produce the reports from ReEmploy, the same transactions were in the report population multiple times, causing material overstatements in the accrual entries computed by personnel at MDES. Ultimately, data related to the new Federal Pandemic Unemployment Compensation (FPUC) program was pulled into the system with multiple errors that went undetected by MDES personnel.

Additionally, MDES only performed financial statement reconciliations of unemployment data once annually at the end of the fiscal year. The information was also not entered into the statewide accounting system - Mississippi Accountability System for Government Information and Collaboration (MAGIC) but once at year end. These untimely reconciliations and agreement of financial statements to ReEmploy caused excessive delays in the preparation of financial statements of MDES.

**Effect**

Failure to properly record accruals and failure to perform timely and accurate reconciliations of data greatly increase the risk of fraud and misappropriation of assets and liabilities, which can result in material misstatements of financial statements. Several accounts were overstated for fiscal year 2020 and required material audit adjustments to correctly report the financial status of MDES.

**Recommendation**

We recommend the Mississippi Department of Employment Security strengthen controls to ensure accrual entries are correct and to record entries in the statewide accounting system more frequently than once annually. Additionally, personnel should complete timely and accurate reconciliations to ensure information is reported correctly.

**Views of Responsible  
Officials**

MDES concurs with the finding. See additional information in Management's Corrective Action Plan at page 55.

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**2020-007** Controls Should Be Strengthened Over Unemployment Insurance Benefits Paid.

**Repeat Finding** No.

**Criteria** *The Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when control activities, such as authorization, approval, verification, and adherence to policy and procedures are implemented and followed. These activities are essential to minimizing the risk of fictitious claims and misstated financial position.*

*The Mississippi State Code Annotated (1972) §71-5-511 states that one is eligible to receive benefits that “has been unemployed for a waiting period of one (1) week”; “participates in reemployment services, such as job search assistance services, if, in accordance with a profiling system established by the department, it has been determined that he is likely to exhaust regular benefits and needs reemployment services”; “is able to work, available for work and actively seeking work”.*

*The Mississippi State Code Annotated §71-5-505(1) states “For weeks beginning on or after July 1, 1991, each eligible individual who is totally unemployed or part totally unemployed in any week shall be paid with respect to such week a benefit in an amount equal to his weekly benefit amount less that part of his wages, if any, payable to him with respect to such week which is in excess of Forty Dollars (\$40.00).”*

*The Mississippi State Code Annotated §71-5-513 describes reason for separation that disqualifies the individual as “(a) For the week, or fraction thereof, which immediately follows the day on which he left work voluntarily without good cause, if so found by the department, and for each week thereafter until he has earned remuneration for personal services performed for an employer, as in this chapter defined, equal to not less than eight (8) times his weekly benefit amount, as determined in each case; however, marital, filial and domestic circumstances and obligations shall not be deemed good cause within the meaning of this subsection. Pregnancy shall not be deemed to be a marital, filial or domestic circumstance for the purpose of this subsection. (b) For the week, or fraction thereof, which immediately follows the day on which he was discharged for misconduct connected with his work, if so found by the department, and for each week thereafter until he has earned remuneration for personal services performed for an employer, as in this chapter defined, equal to not less than eight (8) times his weekly benefit amount, as determined in each case. (c) The burden of proof of good cause for leaving work shall be on the claimant, and the burden of proof of misconduct shall be on the employer.”*

**Condition** The Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted by the federal government in response to the COVID-19 pandemic required state unemployment agencies to increase the amount of benefits paid to claimants. Additionally, claimants were able to collect unemployment payments for an expanded time frame, and claimants who would otherwise not qualify for benefits

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(such as independent contractors and self-employed persons) were able to qualify for benefits. In order to process the multitude of claims in an expeditious manner, MDES opted to override the existing controls designed in the internal control system. Proven and tested controls over Unemployment Insurance claims were altered or disregarded for the periods of March 2020 through December 2020. Controls altered for the claims submitted in the noted timeframes were:

- Waived; One week waiting period; March 8, 2020 – December 26, 2020;
- Waived; Work Search Requirements; March 8, 2020 – August 8, 2020;
- Waived; Able to work, Available to work, and Actively Seeking Work (A&A); March 8, 2020 – September 26, 2020;
- Altered; Weekly Earning Allowance increased from \$40 to \$200; May 3, 2020 – September 26, 2020; and
- Altered; Reason for separation from *ALL* employers in base period changed to separation from *MOST RECENT* employer; March 8, 2020 - September 26, 2020.

Additionally, claims were approved without social security number verification during the period March 2020 – May 2020.

Due to these controls being ignored or overridden, MDES was unable to properly monitor the immense influx of claims and to properly vet those claims for fraud. During fiscal year 2020, total unemployment benefit claims increased from \$59,639,208 (fiscal year 2019) to \$2,146,060,996, a 3,498% increase. Included in that total was \$117,948,403, or 5.5%, identified as overpayments. These payments include:

- Payments made to individuals who never lost or had a reduction in wages;
- Fraudulent payments due to stolen identity;
- Payments made to incarcerated individuals; and
- Payments made due to international unemployment fraud.

In particular, MDES inadvertently allowed incarcerated individuals to receive payment when the control that required claimants to verify that they were “actively seeking work” was waived. Incarcerated individuals were then able to apply for benefits and receive approval without any additional verification from MDES.

MDES personnel were initially overwhelmed by the influx of claims and were unable to accurately report the amount of increased loss the State was subject to, and were unable to adequately monitor the fraud that was reported by individuals when they received notification of benefits received.



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<b>Cause</b>	<p>MDES did not have proper internal controls in place due to overriding or waiving existing controls. This caused MDES the inability to verify that unemployment claims were paid to proper claimants.</p> <p>The Social Security Administration (SSA) application for verifying Social Security numbers was down for period of time between March 2020 and May 2020. The Unemployment Insurance system would “verify” the numbers automatically and approve the claim when unable to connect to the SSA’s application. Claimants were not recertified until several months after receiving payments due to the increase in volume of claims, which allowed errors to go undetected.</p>
<b>Effect</b>	<p>Failure to properly enable controls and follow policies and procedures increases the risk of fraud and misappropriation, which can result in material misstatements of financial statements. The waiver of strict controls on Unemployment Insurance benefits resulted in an increase of known overpayments of 79.1% from FY 2019 to FY 2020.</p>
<b>Recommendation</b>	<p>We recommend the Mississippi Department of Employment Security strengthen controls over policies and procedures to ensure internal controls are never disabled or circumvented. Additionally, we recommend further analysis of the overpayments of unemployment claims be performed in order to maximize the potential for recovery of fraudulent payments.</p>
<b>Views of Responsible Officials</b>	<p>Other than to acknowledge that a number of overpayments and improper payments occurred, MDES respectfully disagrees with Finding 007 in its entirety, both in scope and holding.</p> <p>See additional information in Management’s Corrective Action Plan at page 56; and the Auditor’s Response to the Corrective Action Plan at page 61.</p>

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**SIGNIFICANT DEFICIENCY**

<b>2020-005</b>	<p><u>Controls Should Be Strengthened over Mississippi’s Accountability System for Government Information and Collaboration (MAGIC) Segregation of Duties, and Quarterly Security Certification Process.</u></p>
<b>Repeat Finding</b>	<p>No.</p>
<b>Criteria</b>	<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 control activities, such as proper segregation of duties, exist and are effective. Proper segregation of duties is essential to minimizing the risk of fictitious transactions and misstated financial position.</p>

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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. At a minimum, the following functions are considered incompatible for proper segregation of duties:

- Custody;
- Authorization or approval; and
- Recording or reporting

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 MAGIC 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.

Additionally, *The Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual Section 30.60.00* dictates that security roles should be reviewed on a quarterly basis to ensure that duties are segregated.

**Condition** The Mississippi Department of Employment Security submitted certification to DFA quarterly during state fiscal year 2020 stating that it was in compliance with policies regarding MAGIC security. Upon review of the security roles assigned and the exceptions noted below, the agency did not have proper segregation of duties, improperly certified their agency had proper segregation of duties, and submitted the certifications late three out of four quarters in fiscal year 2020.

During our review of MAGIC security roles, we noted the following exceptions:

- Six instances in which there were role violations related to improper segregation of duties; and
- Three MAGIC Quarterly Security Report Reviews were submitted late: 2<sup>nd</sup> quarter (7 days), 3<sup>rd</sup> quarter (19 days), and 4<sup>th</sup> quarter (15 days)

**Cause** MDES did not properly review and monitor their MAGIC security roles assigned to employees. They also did not sign and return the MAGIC Quarterly Security Certification by the due date set by DFA.

**Effect** Failure to segregate duties properly 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 that can result in material misstatements of financial statements.

**Recommendation** We recommend the Mississippi Department of Employment Security strengthen controls over MAGIC security and ensure that roles are properly assigned, duties

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are segregated and reviewed in accordance with the MAAPP manual, and implement procedures to ensure the timely completion of their MAGIC Quarterly Security Certification.

**Views of Responsible  
Officials**

MDES concurs with the finding. See additional information in Management's Corrective Action Plan at page 55.

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DEPARTMENT OF FINANCE AND ADMINISTRATION

MATERIAL WEAKNESS

**2020-004**                      Strengthen Controls Over the Change Logs of the Statewide Payroll and Human Resource System (SPAHRs).

**Repeat Finding**            Yes; 2018-008 and 2019-014; Material Weakness Findings.

**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.

**Condition**                    During testwork performed for fiscal year 2020, we noted the following:

- 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.

**Cause**                        There are inadequate controls surrounding SPAHRs security logging.

**Effect**                        Failure to log transactional changes adequately and to periodically review logs for appropriateness could result in untimely modification of data, security configuration changes, or fictitious transactions.

**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.

**Views of Responsible Officials**        Management at the Department of Finance and Administration concurs with the finding.

See additional information in Management’s Corrective Action Plan at page 63.

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**2020-010**                      The State of Mississippi Should Require Chief Fiscal Officers of State Agencies to hold Minimum Accounting Qualifications and Attend Mandatory Training.

**Repeat Finding**            Yes; 2016-012, 2017-006, 2018-024 and 2019-015; Material Weakness Findings

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<b>Criteria</b>	<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>
<b>Condition</b>	<p>During testing for fiscal year 2020, 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>
<b>Cause</b>	Lack of consistently applied agency qualifications for accounting personnel.
<b>Effect</b>	The failure of the State to hire and retain competent staff could result in material misstatement of the financial statements.
<b>Recommendation</b>	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.

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**Views of Responsible**

**Officials** Management at the Department of Finance and Administration concurs with the finding.

See additional information in Management's Corrective Action Plan at page 64.

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**SIGNIFICANT DEFICIENCY**

**2020-013** Controls Over Journal Entries Should Be Strengthened.

**Repeat Finding** No

**Criteria** *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* (Green Book) specify that a satisfactory control environment is only effective when control activities have been implemented, such as maintaining appropriate documentation of transactions.

**Condition** During our review of super transaction journal entries recorded by the Department of Finance and Administration during fiscal year 2020 with ZZ document types, we noted 29 documents totaling \$708,548,262 did not have support attached in MAGIC nor was support provided by the agency upon request. The entries were recorded by DFA to manually process statewide transactions that did not automatically post in the system due to an imbalance with various dimension elements. It should be noted the agency did reconcile cash in MAGIC to State Treasury's cash balance, which would have likely detected any errors from the ZZ documents.

**Cause** The entries were prepared by the Office of Fiscal Affairs, DFA, but uploaded in the system by the Office of Fiscal Management, DFA. Support used to prepare the entries was not maintained by the agency.

**Effect** Not maintaining supporting documentation for journal entries could result in material misstatement of the financial statements to go undetected and uncorrected.

**Recommendation** We recommend the Department of Finance and Administration maintain supporting documentation for journal entries recorded in the Mississippi Accountability System for Government Information and Collaboration (MAGIC), the state accounting system.

**Views of Responsible**

**Officials** Management at the Department of Finance and Administration concurs with the finding.

See additional information in Management's Corrective Action Plan at page 65.

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DEPARTMENT OF HUMAN SERVICES

MATERIAL WEAKNESS

2020-008                      Controls Should Be Strengthened to Ensure Proper Review Processes for Financial Reporting.

Repeat Finding              No.

Criteria                      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* (Green Book) specifies that a satisfactory control environment is only effective when control activities exist. This includes but is not limited to the review process of transactions, proper support of transactions, proper documentation and support of methodologies used in accounting practices, proper support of information and communication within the agency, and a commitment to competence by management.

*The Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual Section 27.20.20* states that the Department of Finance and Administration Office of Financial Reporting (DFA OFR) will assist the agencies in preparing GAAP conversion entries as part of the year-end close out. As part of the GAAP Packet submission, each agency is required to submit an acknowledgement that the entries posted by DFA OFR have been reviewed and accepted by the agency.

*MAAPP Manual Section 27.30.05* states that supporting schedules provide the details, which support the adjusted MAGIC balances on the GAAP Trial Balance.

*MAAPP Manual Section 30.20.10* states, “While each state employee has personal responsibility for maintaining internal controls, the agency head is ultimately responsible and must assume ownership for internal control. All agency management must support the agency’s internal control philosophy, promote compliance, and maintain control within their areas of responsibility. Chief financial officers have key oversight and policy enforcement roles over fiscal matters. Other agency managers may hold lead responsibility for compliance with non-financial aspects of laws, directives, policies, procedures, and the code of ethics... Agencies are to maintain adequate written documentation for activities conducted in connection with risk assessments, internal control reviews, and follow-up actions. This documentation is to be available for review by agency management, the Office of State Auditor, and DFA.”

*MAAPP manual Section 30.30.40* states, “The information and communication process entails identifying, capturing, and communicating relevant financial and non-financial information in a form and timeframe that enables employees to carry out their responsibilities. Successful communication occurs up, down, and across the agency. This process is effective if all personnel receive a clear message from top management that internal control responsibilities must be taken seriously.”

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**Condition**

The Mississippi Department of Human Services (MDHS) operates by dividing daily operations into different departments with different functions. During the audit for fiscal year ended June 30, 2020, we noted that the different departments do not communicate and exchange information. For example, the Grant Schedule is created using information for state fiscal year end. These accruals and expenditures are not reconciled with the TANF Programmatic Division's federal fiscal year end reporting. The agency does not have in place any overarching policies to ensure the integrity and accuracy of information between divisions. Additionally, policies and procedures in Budgets and Account and Grants Management divisions are often unwritten, or out of date. Lastly, information that was supposedly reviewed by MDHS personnel contained copious errors, miscalculations, or misstatements. These errors either indicate that staff is not competent to review the reports and transactions or personnel are merely signing off as reviewer as a formality without actually conducting the review. In the aggregate, these instances resulted in a material weakness in the agency's overall control environment. Examples of these errors include:

- Lack of communication between departments regarding the reconciliation and accuracy of reported financial information. Information about the subgrant schedule was not reconciled between the programmatic division, accounting division, and budgeting information. Personnel could not provide auditors any two lists of amounts passed to subrecipients that agreed with each other during the financial audit. Each department only reconciled information for their own purpose and use, and no intra-departmental reconciliations were performed to verify the departments were using accurate information for reporting- both programmatic and financial statement purposes.
- Lack of controls to ensure proper review and submission of the GAAP Packet information. The agency had to revise and resubmit the Grant Schedule and Federal Subgrant Activity Schedule on multiple occasions due to errors noted by auditors. The Grant Schedule did not reconcile to other programmatic reports, and agency personnel were initially unable to assist auditors in performing reconciliations in order to verify the accuracy of those reports or Grant Schedule.
- Lack of controls to ensure proper review and approval of accounts receivables transactions and account balances. Accounts receivable account 12000001 was understated in the amount of \$1,687,406 for fiscal year 2020 due to agency personnel using the wrong FNS 209 report to calculate the totals for GAAP entries.

Additionally, there were five instances in which controls could not be verified for the calculation of accounts receivable estimates. Rates that were utilized by the agency for these estimates could not be supported by agency personnel, and there was no written methodology for how the rates were computed. Per a memorandum dated August 14, 2001 and based on conversations with the agency's accounting director, these rates have not

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been reevaluated since 2001, almost twenty years ago.

Lastly, four instances in which MDHS could not provide adequate support to support accounts receivables calculations for entries entered into the statewide accounting system – The Mississippi Accountability System for Government Information and Collaboration (MAGIC).

- Lack of controls to ensure proper review and approval of Journal Voucher transactions. In one instance, information provided by MDHS to support journal entries recorded by the Department of Finance and Administration (DFA) could not be relied upon due to the calculations and documentation being incorrect. Initially, when MDHS staff was alerted to an issue with the journal entries entered by DFA on MDHS behalf, MDHS personnel stated that MDHS did not approve or review the entry before it was posted. However, auditors were later given a signed statement by MDHS personnel, dated August 17, 2020, where MDHS personnel stated they reviewed, approved, and took responsibility for the transaction.

Additionally, in one instance the agency miscalculated an accrual entry causing an overstatement in accounting estimates by \$13,379,990.

Overall, MDHS lacks appropriate, written methodology to support the calculations made in the financial statements. This lack of written methodology results in an overall lack of controls at the agency. Auditors identified multiple errors and were able to verify a material portion of the calculations; however, without audit intervention these amounts could have materially misstated the agency's financials.

<b>Cause</b>	MDHS did not possess or enforce proper internal controls structures over financial reporting. Additionally, Management has not enforced a commitment to competence at the agency, and has allowed multiple errors in financial reporting to remain undetected by agency personnel. Lack of written policies has contributed to agency personnel not performing adequate reviews over financial information. Lastly, different departments within the agency do not communicate and reconcile accounting information between them to verify the accuracy of that reported information.
<b>Effect</b>	Without proper internal control structures over financial reporting, erroneous financial statements and corresponding schedules could be compiled, resulting in a misrepresentation of the financial standing of MDHS.
<b>Recommendation</b>	We recommend management at the Department of Human Services evaluate internal control procedures over the review and approval of transactions, GAAP Packet information, and the Federal Sub-Grant Activity Schedule. Additionally, we recommend existing staff obtain the needed training to be able to accurately report and review financial information, and that the agency develop overarching policies aimed at ensuring communication about and reconciliation of financial statement information is performed regularly.

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**Views of Responsible**

**Officials** MDHS is in agreement that controls should be strengthened to ensure proper review processes for financial reporting.

See additional information in Management’s Corrective Action Plan at page 70.

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**2020-009** Controls Should Be Strengthened to Ensure Suspected Fraud, Waste, and Abuse is Appropriately Reported and Responded to in the Agency.

**Repeat Finding** Yes – 2019-012.

**Criteria** *The Clarifying Statements on Auditing Standards*, issued by the American Institute of CPAs, AU-C 250 states, in part, “It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity’s operations are conducted in accordance with the provisions of laws and regulations...”

*Government Auditing Standards, July 2018 Revision*, paragraph 6.41 establishes reporting requirements related to instances of fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.

Additionally, *The Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and The Green Book specify that a satisfactory control environment is only effective when there is a commitment to integrity and ethical values. This principle of “tone at the top” management serves as the foundation of all other components of internal control.

**Condition** During the fiscal year 2019 audit, we noted multiple internal control deficiencies and instances in which executive management of the Mississippi Department of Human Services (MDHS) circumvented controls that resulted in an untold amount fraud, waste, and abuse. The “tone at the top” of MDHS did not embrace ethical values or an atmosphere of integrity. The former Executive Director of MDHS (JD) resigned in fiscal year 2019, and was replaced three times during fiscal year 2020. Due to this lack of a consistent leadership and the unknown pervasiveness of the fraud, waste, and abuse, many of the lingering effects of the prior year’s leadership still remained in fiscal year 2020. In particular, we noted that the agency did not adopt a clear and concise process for subrecipients and for fraud reporting in fiscal year 2020. This lack of policies contributed to a weak control environment, including the response to suspected fraud and increased need for more thorough risk assessment of subrecipients.

We noted the following instances during the fiscal year 2020 audit:

- During fiscal year 2020, executive management failed to timely alert regulatory authorities, including the Office of the State Auditor, of additional reported fraud regarding subrecipients. In February 2020, an

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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individual with credible allegations of fraud about a third party subrecipient of MDHS reported multiple allegations of this fraud to personnel at MDHS. The individual cited specific examples of behaviors of a subrecipient that could result in material fraud, waste, and abuse. At this time, the Office of the State Auditor (OSA) was still actively auditing MDHS for fiscal year 2019. MDHS was aware at that time that the 2019 audit included multiple allegations of widespread fraud, waste, and abuse by two existing subrecipients. However, when we inquired of executive management about the existence of any other reported fraud during that time, executive management did not relay the additional allegations to any auditors.

- In particular, during the formal exit conference held on April 22, 2020 for the fiscal year 2019 audit, we inquired of any additional known potential fraud that had occurred. At this time, MDHS was aware of the potential fraud of a subrecipient that was reported on February 19, 2020. However, MDHS did not express their knowledge of the potential fraud at this time.
- During the entrance conference for the fiscal year 2020 audit on July 20, 2020, we again asked MDHS executive staff of their knowledge of potential fraud that had occurred. MDHS again stated they were not aware of any potential fraud.
- During the fraud interview process that started on August 3, 2020 it was noted that potential fraud had occurred at a subrecipient and potential other issues with several other subrecipients were discussed. This information led OSA audit staff to inquire of executive management of the potential fraud with said subrecipient(s). During this question/answer phase over the month of August, some members of executive management still did not inform auditors of the fraud, or expressed to auditors that the fraud tip was “minor” and involved an incident of an employee using a business car for personal use, and of an employee “sleeping on the job.” At two separate meetings, it was expressed by the MDHS OIG Division that MDHS was looking into the tip and that the report on the fraud was not final but the reported “tip” appeared to be “minor”.
- Due to the increased risk at MDHS for fraud, waste, and abuse, auditors requested to view a copy of the fraud complaint. Upon receiving the fraud tip form from the MDHS OIG, we noted that in addition to the personal use of the vehicle, there was also reports of an employee falsifying timesheets for employees not working at the subrecipient; bidding processes not being properly followed; portions of federal grant money being used to purchase personal items for staff and staff’s family members; and procurement card purchases with federal dollars being used for personal use. Many of the allegations of fraud in the tip were similar to issues discovered by auditors in the prior fiscal year report.
- Additionally, subrecipients Mississippi Community Education Center

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**PART – 2 Financial Statement Findings (continued)**

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(MCEC) and The Family Resource Center (FRC) were still being funded with federal dollars in fiscal year 2020 after the suspected fraud was reported to executive management at MDHS by OSA and individuals at other state agencies.

- MDHS has chosen not to re-evaluate the subrecipient awards made in the Temporary Assistance for Needy Families (TANF) program for fiscal year 2019 after admitting that the process in awarding those grants was heavily manipulated by the former Executive Director (JD) and that at least two of the subrecipients misused grant funds during the year. It should be noted that grants that were renewed in January 2020 were required to submit proposals.
- MDHS did not perform final grant close-out procedures for all of the MCEC and FRC grants and did not verify that the amounts paid to both subrecipients in the form of large advances were actually utilized, and that any amount unexpended was returned to MDHS for all grants. MDHS stated that these procedures were not done due to the ongoing investigation into the matter.

**Cause** Executive Management at MDHS was in flux during fiscal year 2020 due to the reported fraud, waste, and abuse in fiscal year 2019. The agency has still not adopted a comprehensive approach to responding to and reporting suspected fraud; additionally, the agency did not take all the needed steps to verify suspected fraud was investigated timely and misappropriated monies were returned.

**Effect** An organization that does not embrace ethical principles and implement a zero tolerance policy for fraud leaves itself open to fraud, waste, and abuse. Additionally, MDHS cannot restore public trust until known and suspected fraud is properly investigated and actions have been taken to replenish lost federal dollars.

**Recommendation** We recommend management at the Mississippi Department of Human Services implement a comprehensive fraud policy, for both individuals internal to the organization and external subrecipients. Additionally, Management needs to timely report and respond to suspected and/or reported fraud.

**Views of Responsible Officials** MDHS is in agreement that controls should be strengthened to ensure suspected fraud, waste, and abuse is appropriately reported and responded to in the Agency.

See additional information in Management's Corrective Action Plan at page 67.

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DEPARTMENT OF MARINE RESOURCES

**MATERIAL WEAKNESS**

**2020-014**                      Strengthen Controls Over Financial Reporting.

**Repeat Finding**              No.

**Criteria**                      Per GASB Statement 33 related to voluntary nonexchange transactions, cash and other assets that are provided in advance should be reported as deferred revenues [liabilities] by recipients until allowable costs have been incurred and any other eligibility requirements have been met.

**Condition**                      During audit testing of federal revenue, for fund 5345300000, it was noted that advance receipts were recognized as revenue when received and not deferred to match programmatic expenditures when incurred. As a result, revenues and liabilities were overstated and understated, respectively, causing the ending fund balance to be overstated by \$68,439,043 as of June 30, 2020. The adjustment required to fund 5345300000 was a Debit to Federal Revenue and a Credit to Unearned Federal Revenue in the amount of \$68,439,043.

**Cause**                              The correction was due to an error that was not identified in a timely manner.

**Effect**                              The ending fund balance of fund 5345300000 was materially overstated by \$68,439,043, and required an adjustment to correct the ending balance. The adjusted fund balance at the end of the year should be \$403,381.

**Recommendation**              We recommend that MDMR review current procedures related to the review of prepared financial statements, and to enhance procedures (as deemed necessary) to ensure that the review identifies errors in a timely manner.

**Views of Responsible Officials**              Management agrees with the finding.

See additional information in Management's Corrective Action Plan at page 73.

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PART – 2 Financial Statement Findings (continued)**

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**DEPARTMENT OF PUBLIC SAFETY**

**MATERIAL WEAKNESS**

**2020-015**                      Strengthen Controls Over Inventory Transactions.

**Repeat Finding**            No.

**Criteria**                      Proper inventory accountability requires detailed records be maintained in order to properly report inventory. Management should have written policies and procedures in place to ensure accurate physical inventory count and records.

**Condition**                    There was not sufficient inventory records to substantiate the inventory transactions during the fiscal year.

**Cause**                        There are no written policies and procedures or controls in place to ensure proper authorization and accountability for all inventory transactions. There were informal procedures that were being performed; however, the procedures were not consistently being performed throughout the year.

**Effect**                        The lack of policies and procedures or controls over inventory transactions leads to unreliable information and impairs the Funds' ability to (1) know the quantity and value of assets it owns, (2) safeguard its assets from physical deterioration, theft, loss, or mismanagement, (3) prevent unnecessary storage and maintenance costs or purchase of assets already on hand.

**Recommendation**        Management should implement written policies and procedures and controls to help ensure proper authorization and accountability for all inventory transactions.

**Views of Responsible Officials**        DPS acknowledges the finding regarding inventory records. The agency will draft and implement written policies and procedures to ensure inventory is properly maintained.

See additional information in Management's Corrective Action Plan at page 75.

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**2020-016**                      Strengthen Controls Over Financial Reporting.

**Repeat Finding**            No.

**Criteria**                      Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned function to prevent or detect material misstatements in the financial reporting of all funds.

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**PART – 2 Financial Statement Findings (continued)**

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<b>Condition</b>	<p>There were several instances of adjustments that were needed to properly state the financial statements due to lack of proper management review of key entries and accounts.</p> <ul style="list-style-type: none"><li>• An entry of \$1,347,775 related to accounts payable created a debit balance of \$895,081 in an accounts payable account in fund 3371600000 in the GAAP Package Reporting.</li><li>• An entry of \$525,000 related to bank reconciliation for variances occurring in 2013 and 2014 was recorded as current year revenue rather than a prior period adjustment.</li><li>• An entry of \$485,626 related to unrecorded liabilities for amounts paid during the lapse period relating to fiscal year ended June 30, 2020. The unrecorded liabilities relate to transactions paid during the lapse period but were not accrued and the transactions only relate to the WE document type identified in the system.</li></ul>
<b>Cause</b>	<p>The current policies and procedures do not provide for sufficient detailed level of supervisory review and approval of the underling and supporting information used in the GAAP Package Reporting and key entries.</p>
<b>Effect</b>	<p>Audit adjustments were needed to properly state the revenue, expenditures and transfer in/out. The audit adjustments were as follows:</p> <ul style="list-style-type: none"><li>• \$1,347,775 was made to accounts payable that crossed between the selected funds (2271100000 and 3371600000) which adjusted accounts payable and transfer in/out.</li><li>• \$525,000 was made to revenue to record the revenue as a prior period adjustment.</li><li>• \$485,626 was made to properly accrue expenditures paid after year-end relating to fiscal year June 30, 2020.</li></ul>
<b>Recommendation</b>	<p>Management should implement a more detailed process for the review and approval of GAAP Package Reporting and key entries. As part of the process, the supporting information should be reviewed and approved at a sufficiently detailed level to allow Management to detect and prevent errors in a timely manner.</p>
<b>Views of Responsible Officials</b>	<p>DPS acknowledges the finding regarding internal controls over financial reporting. The agency will implement additional procedures, which will require the Deputy Commissioner of Finance and the Commissioner of DPS to approve of the GAAP Package prior to its annual submission.</p> <p>See additional information in Management's Corrective Action Plan at page 75.</p>

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**STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART – 2 Financial Statement Findings (continued)**

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**DIVISION OF MEDICAID**

**MATERIAL WEAKNESS**

**2020-011**                      Strengthen Controls Over the Preparation and Review of the Schedule of Expenditures of Federal Awards and Estimated Claims Payable.

**Repeat Finding**            No.

**Criteria**                      *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* (Green Book) specify that a satisfactory control environment is only effective when there are adequate control activities in place. Effective control activities dictate that a review is performed to verify the accuracy and completeness of financial information reported. The Federal Grant Activity Schedule captures amounts that must be accurate and complete in order to ensure the accuracy of financial and federal information reported on such schedule to verify the accuracy and completeness of financial information reported.

*The Mississippi Agency Accounting Policies and Procedures (MAAPP) manual Section 27.30.60* states, “The Federal Grant Activity schedule supports amounts reported on the GAAP Packet for federal grant revenues, receivables, deferred revenues and expenditures. The schedule is also used for preparing the Single Audit Report required by the Single Audit Act, Office of Management and Budget Uniform Grant Guidance and the State’s audit requirements. The amounts on this schedule should be reconciled by the agency with amounts reported on federal financial reports.”

**Condition**                      During the audit of the Mississippi Division of Medicaid for fiscal year ended June 30, 2020, we became aware of ineffective processes and/or procedures relating to internal controls over financial reporting. The following exceptions were noted on the Schedule of Expenditures of Federal Awards and the Estimated Claims Payable calculation.

- One instance in which the Catalog of Federal Domestic Assistance (CFDA) number did not agree to the Agency Program Index located in the *2020 Catalog of Federal Domestic Assistance* at [beta.sam.gov](http://beta.sam.gov).
- Two instances in which the “Grant Period Start Date” per the Schedule of Expenditures of Federal Awards did not agree with the “Grant Start Date” per the Grant Award.
- Two instances in which the “Grant Period End Date” per the Schedule of Expenditures of Federal Awards did not agree with the “Grant End Date” per the Grant Award.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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- Two instances in which the amount listed in the grant award section of the Schedule of Expenditures of Federal Awards did not agree with the Grant Award.
- Five instances in which expenditures per the Schedule of Expenditures of Federal Awards did not agree to the Mississippi Accountability System for Government Information and Collaboration (MAGIC), resulting in adjustments of \$61,553,632 to the Schedule of Expenditures of Federal Awards.
- Agency does not perform a reconciliation of the Schedule of Expenditures of Federal Awards to MAGIC.
- The incorrect percentage was used for the adjustment for change in total medical service payments in the original and revised Claims Payable calculations.
- The COVID reduction in claims was calculated incorrectly in the Claims Payable calculation.
- The amount of claims payable to other state agencies was not included in the Claims Payable calculation.

The lack of adequate controls over the Schedule of Expenditures of Federal Awards and the Claims Payable calculation resulted in the following:

- Accounts Payable was understated by \$4,884,341
- Subsidies Loans and Grants was understated by \$4,884,341
- Due from Federal Government was understated by \$65,616,427
- Federal Revenue was understated by \$65,616,427

<b>Cause</b>	Agency did not possess or enforce proper internal control structures. Additionally, Agency did not properly review and reconcile grant schedule information and did not perform review over crucial aspects of financial reporting.
<b>Effect</b>	Without proper internal control structures over financial reporting, erroneous financial statements and corresponding schedules could be compiled, resulting in a misrepresentation of the financial standing of the Mississippi Division of Medicaid. Failure to properly ensure the CFDA numbers and amounts are correct on the Federal Grant Activity Schedule could result in reporting errors on the State's Single Audit Report.
<b>Recommendation</b>	We recommend the Mississippi Division of Medicaid strengthen controls over the preparation and review of the Schedule of Expenditures of Federal Awards and

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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Claims Payable calculation to ensure all grant award information and amounts reported are accurate and correct.

**Views of Responsible  
Officials**

The Division agrees with the exceptions noted on the Schedule of Expenditure of Federal Awards and the Estimated Claims Payable calculation.

See additional information in Management's Corrective Action Plan at page 77.

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PART – 2 Financial Statement Findings (continued)**

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**MISSISSIPPI PRISION INDUSTRIES**

**MATERIAL WEAKNESS**

<b>2020-001</b>	<u>Controls Related to Maintenance of Source Documents Should be Strengthened.</u>
<b>Repeat Finding</b>	Yes, 2019-002 and 2018-037, Material Weakness Finding.
<b>Criteria</b>	A financial reporting system requires an appropriate review function to ensure that all relevant information is processed correctly and appropriately assimilated into the financial reporting process.
<b>Condition</b>	There were instances during our audit whereby source documentation requested was not readily available. Many of the inventory cost invoices could not be located timely. Additionally, certain travel documentation tested did not include attached receipts, description of the expense or other documentation to substantiate business purpose.
<b>Cause</b>	The Corporation does not have adequate processes to ensure source documents are retained and filed in a readily accessible location.
<b>Effect</b>	Inadequate controls over review and maintenance of source documentation could result in inaccurate accounting information.
<b>Recommendation</b>	We recommend policies be strengthened so that review functions and business purposes are documented and source documentation is better maintained.
<b>Views of Responsible Officials</b>	MPIC concurs with the finding. A financial reporting system requires an appropriate review function to ensure that all relevant information is processed correctly and appropriately assimilated into the financial reporting process.  See additional information in Management’s Corrective Action Plan at page 79.

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<b>2020-002</b>	<u>Controls Over Inventory Should Be Strengthened</u>
<b>Repeat Finding</b>	Yes, 2019-003 and 2018-038, Material Weakness Finding
<b>Criteria</b>	Inventories held by the Corporation are an important part of its overall financial reporting system and requires appropriate controls over pricing, existence and obsolescence.
<b>Condition</b>	During our inventory cost testing, differences were noted whereby certain costs used to extend the inventory did not agree with recent inventory prices. It was also noted that some inventory source documents are located at remote locations rather than the administrative central office.

**STATE OF MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PART – 2 Financial Statement Findings (continued)**

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<b>Cause</b>	The Corporation has a small staff and lacks entity level control structure that is needed to ensure that inventory is accounted for accurately.
<b>Effect</b>	Inadequate controls over the inventory control process could result in material misstatements.
<b>Recommendation</b>	We recommend policies be strengthened so that deficiencies noted above do not reoccur. The Corporation should implement policies, procedures and a review process to ensure inventory is accurately calculated and reported.

**Views of Responsible Officials**

MPIC concurs with the finding and is aware that the inventory controls should be strengthened to make sure no misstatements are made, and inventory is accurately stated.

See additional information at Management's Corrective Action Plan at page 79.

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**2020-003**      Controls Related to Pension and Post Employment Benefit Liability Should Be Strengthened.

**Repeat Finding**      Yes, 2019-005 and 2018-040, Material Weakness Finding.

**Criteria**      Pension and postemployment benefit liabilities and related deferred inflows and outflows held by the Corporation are an important part of its overall financial reporting system and requires appropriate controls over existence and obsolescence.

**Condition**      To a large extent, the Corporation relies on its external auditors to calculate the Corporation's allocation of pension and postemployment benefit liabilities. However, the external auditor cannot be considered part of an entity's system of control. Therefore, the adjustments calculated and proposed to Corporation by the external auditor represent deficiencies in internal control.

**Cause**      The Corporation has a small staff and lacks the experience needed to ensure that these calculations are accounted for accurately.

**Effect**      Inadequate controls over pension and postemployment benefit liabilities could result in material misstatements.

**Recommendation**      We recommend the Corporation staff prepare the pension and postretirement calculations in the future and post the adjustments to the accounts prior to the audit.

**Views of Responsible Officials**

MPIC concurs with the finding. MPIC is aware that the internal accounting department was tasked with preparing the Pension and Postemployment benefits calculations internally. Going forward, the department will learn how to prepare the schedule and adjustments. See additional information at Management's Corrective Action Plan at page 80.

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STATE OF MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
PART – 2 Financial Statement Findings (continued)

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OFFICE OF THE STATE TREASURER

SIGNIFICANT DEFICIENCY

**2020-017**                      Controls Should Be Strengthened to Ensure Compliance with State Law Over Cancellation of Warrants, and over Maintenance of a Proper Audit Trail.

**Repeat Finding**            No.

**Criteria**                      *The Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Control Activity principal specifies, “The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.”

*Section 7-7-42 of the Mississippi State Code of 1972, Annotated* states, “The State Fiscal Officer shall transfer the funds reflected by the cancellation of the warrant to the Abandoned Property Fund authorized by Section 89-12-37 of the Unclaimed Property Division of the State Treasury where the funds shall remain for five (5) years. After five (5) years, if the funds are unclaimed, the State Treasurer shall transfer the funds back to the original source of funds. This section is applicable to warrants issued on and after January 1, 2000.”

**Condition**                      During our review of 10 canceled warrants, we noted one instance in which the agency did not have supporting documentation for a canceled warrant and two instances in which the agency did not return the canceled warrant funds back to the original source within five (5) years, as required by MS Code. Warrant 700059016 for \$2,470.00 and Warrant 013364455 for \$5,000.00, for a total of \$7,470 were not returned within the required five (5) years.

**Cause**                              Agency did not maintain source documentation. Agency did not process the funds back to the original source in a timely manner due to a weakness in internal controls.

**Effect**                              Without proper controls over the cancellation of warrants, the Agency could misappropriate deposits due to the lack of appropriate records, or fail to properly record all applicable deposits. Additionally, canceled warrants could be paid after the five year statute of limitations, which could result in an misstatement in canceled warrants liability.

**Recommendation**            We recommend that the Office of the State Treasurer strengthen controls to ensure all documentation for unclaimed properties is preserved, and agency should strengthen controls to ensure all canceled warrants are returned to original source as prescribed by MS Code.

**Views of Responsible Officials**            We concur with this finding and will strengthen controls over compliance with State Law over cancellation of warrants and maintenance of a proper audit trail.

See additional information in Management’s Corrective Action Plan at page 81.

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**Schedule of Findings and Questioned Costs:**  
**Part 3**  
**Management Response**



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**STATE OF MISSISSIPPI**  
**MISSISSIPPI DEPARTMENT OF CORRECTIONS**  
**Burl Cain, Commissioner**

**FINANCIAL AUDIT FINDINGS**

**May 11, 2021**

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

Dear Mr. White:

The Mississippi Department of Corrections has received Financial Audit from Carr, Riggs & Ingram, LLC for fiscal year end June 30, 2020. In my capacity as the Commissioner of MDOC, I have conducted staff meetings with our executive team in order to adequately address any deficiencies and/or instances of non-compliance revealed in the audit. MDOC has worked tirelessly since February to address and has already corrected many of the findings stated in your report. MDOC has established its new vision as an honorable, innovative, and fiscally responsible professional organization.

With respect to your Financial Audit of the Mississippi Department of Corrections (MDOC), we offer the following comments:

**Finding 2020-018**

Repeat Finding: 2018

Finding Type: Material Weakness in Internal Controls Over Financial Reporting – GAAP Package

There were several instances of adjustments that were needed to properly state the financial statements due to lack of proper management review of key entries, accounts, and supporting worksheets used in Fund's GAAP Package Reporting process.

The Funds' process related to the accrual process for medical services accounted for in the Medical

Fund does not provide sufficient detail to support the accrual amount recorded. The accrual is determined at a point in time based on certain information; however, the information is not maintained. Additionally, complicating the accrual process is a significant lag time of receipt of the medical bills related to the services being performed. In reviewing the medical bills, the invoices related to medical services were posted sometimes four months from when the services were performed.

The Funds have several contractual relationships related to inmate services and the GAAP Packages did not accrue these invoices related to these services in the Private Prison Fund and Regional Prison Fund. The accrual process incorrectly indicated that these invoices were related to budget period 2021 as a result of a Senate Bill indicating that there were funds appropriated in 2021 to fund 2020 expenditures and therefore not included in the GAAP Package accruals. The Funds do not have documented evidence of controls over review of the monthly reporting package by management for all funds.

Additionally, the recordkeeping and organizational system of the underlying calculations and worksheets used in the GAAP Package Reporting process is disorganized and not conducive to easy supervisory review and approval.

#### **Agency and Corrective Action Plan**

Management has already changed the process for completing transactions in MAGIC. Support documentation will consist of all line items associated with transactions and support the total amount of the transaction prior to approval. The Director of Fiscal Affairs will be the final approval on these transactions and ensure supporting detail is attached in MAGIC.

The Accounting Department will work with the Medical Compliance Department to develop a monthly report identifying all offenders' incurring medical bills on a monthly basis. The Accounts Payable Team will cross-reference the monthly report with monthly payments to identify outstanding invoices for research and follow-up. This will ensure invoices are processed timely.

The agency has implemented a process in which all fund transfers are reconciled and processed on a monthly basis with support documentation uploaded in MAGIC.

#### **Finding 2020-019**

Repeat Finding: No

Finding Type: Material Weakness in Internal Controls Over Financial Reporting –Premier Supply Link, LLC

The Funds has contracted with Premier Supply Link, LLC (Premier) to provide canteen services to the Funds' inmates statewide. The contract is a net-of-fee contract whereby Premier provides canteen services and the Fund is compensated based on a determined percentage of the retail sales of canteen items to the Funds' inmates. The Funds rely on Premier invoices and supporting documentation related to retail sales to determine the Funds' compensation accounted for in the Inmate Welfare Fund. There is no review of Premier's monthly calculation of the Funds' compensation and verification of the retail sales and supporting documentation.

### **Agency and Corrective Action Plan**

The agency will enforce MDOC Policy 02-10, Canteen Operations, which stipulates canteen funds will be independently audited and require annual financial status report. The agency will look into amending the terms of the contract with Premier Supply Link, LLC to include sufficient language stipulating the agency's discretion to audit financial records and require retention of such records for a specified period of time. The agency is in the process of hiring an internal auditor whose duties will include a monthly review of the review of canteen services compensation and annual financial status report.

The agency will consider requirement of the Service Organization Control (SOC) 1 report to provide independent verification of adequacy of vendor's system of controls.

### **Finding 2020-020**

Repeat Finding: No

Finding Type: Material Weakness in Internal Controls over Financial Reporting and Noncompliance with State Laws – Contractual Services

The Fund has contracted with several different entities to provide residential services to the Funds' inmates. The contract fee is based on inmates assigned to the facility as established by the Midnight Strength Report. The contract fees allow for a minimum guarantee based on levels of inmate population as established by the contract and then additional fee for populations being serviced over the population covered by the minimum guarantees.

We reviewed several invoices related to the contractual payments and noted the following discrepancies, while these items were not material, they indicate lack of detailed review to provide assurance that payments were proper for the Private Prison Fund and Regional Prison Fund:

- The total fee on the invoices for a facility was based on daily inmate population at a determined per diem rate except for the 14<sup>th</sup> day on the invoice that had a different per diem rate.
- Several invoices did not calculate that the total amount correctly but were still paid at the amount due on the invoice.
- Invoices that the check was written for an amount more than the total amount due on the invoice without any adjustment noted on the invoice indicating a different amount was due.
- Invoices based on inmate populations that were different then the Midnight Strength Report.
- Invoice which noted the inmate population was for the period April 2020 but the detail of the inmate population by day had dates of March 2020.

In addition, we reviewed all the contracts utilized by the Funds and noted the Funds did not issue a purchase order for a contractual purchase to ensure final payment of invoice. Utilizing purchase orders is a requirement in the MAAPP Manual and also serves as a control in the statewide accounting system (MAGIC) to ensure contracts are not overpaid.

### **Agency and Corrective Action Plan**

MDOC has addressed finding through staff training. Accounts Payable staff will be required to reference contract number on vendor invoice, verify mathematical computations, initial and date invoice indicating verification of rates consistent with contract per diem and/or minimum guarantee rates; verify funds are available on contract and attach the verified invoice in MAGIC.

The agency will enforce its discretion to audit financial records on an annual basis and require retention of such records for a specified period of time. The agency is in the process of hiring an internal auditor whose duties include audit of contractors' financial records and annual financial status report.

### **Finding 2020-021**

Finding Type: Material Weakness in Internal Controls Over Financial Reporting -Segregation of Duties

The accounting director for the Funds' has the ability to set up a new vendor and authorize a payment.

### **Agency Response and Corrective Action Plan**

MDOC has reviewed accounting procedures and strengthened controls to ensure proper segregation of duties over the cash disbursements process.

### **Finding 2020-022**

Repeat Finding: No

Finding Type: Material Weakness in Internal Controls over Financial Reporting and Noncompliance with State Law - QuickBooks

### **Condition**

MDOC utilizes QuickBooks accounting software for funds received as well as transfers made between funds. QuickBooks is utilized as a clearing account by MDOC to record receipt transactions and then checks are cut to the State Treasury to move the funds from a MDOC account into a State Treasury account. The account currently has \$27,148 balance and for fiscal year June 30, 2020 had approximately \$8.2 million of receipts, \$8.1 million of checks cut to State Treasury and \$117,000 of checks cut to various vendors. The checks cut to vendors do not specify the fund to which the activity is related nor is it easily determinable whether the activity has been recorded into MAGIC. The Funds reconcile amounts entered into QuickBooks accounting software to MAGIC monthly; however, there were several months that the activity was not recorded into MAGIC timely. The Funds, year-end GAAP adjustments were noted to be large transactions summarizing the detailed transactions input into QuickBooks. These large transactional journal entries do not contain sufficient detail to adequately describe and define the accounting transactions, and do not provide an adequate audit trail for the recording of assets and transactions.



### **Agency Response and Corrective Action Plan**

MDOC will identify agency managed bank accounts that will serve as depository for self-generated funds or custodial funds not required by law to be deposited in the State Treasury in accordance with Mississippi Code Annotated Section 7-7-59; and collection or clearing account for funds required by law to be deposited in the State Treasury in accordance with Mississippi Code Annotated Section 7-9-12. The agency will submit the appropriate Agency Bank Account Request Form to the Department of Finance and Administration for approval on all agency managed bank accounts and update change requests as necessary. The agency ensure all transactions are reconciled on a monthly basis.

Sincerely,



Burl Cain, Commissioner

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## MISSISSIPPI DEPARTMENT OF EDUCATION

Carey M. Wright, Ed.D.  
State Superintendent of Education

### **FINANCIAL AUDIT FINDINGS**

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

March 24, 2021

Dear Mr. White:

In accordance with Financial Audit Management Audit Report dated March 16, 2021, the Mississippi Department of Education (MDE) is providing the following response and corrective action plan for the financial audit finding for the fiscal year ending June 30, 2020.

#### AUDIT FINDING:

**2020-012**      Controls Should Be Strengthened over the Preparation of the Federal Grant Activity Schedule.

Response: Although the MDE concurs with the finding, the MDE does not agree that a "lack of appropriate personnel oversight" was the cause of the finding.

#### Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

The Executive Director of Accounting and the Executive Director of Grants Management will ensure controls are strengthen over the preparation and review process of the Schedule of Federal Awards and Subgrant Schedule form 27.30.70.

B. Name of the contact person responsible for corrective action.

Sheila Franklin-Buie, Executive Director of Accounting  
Elisha Campbell, Executive Director of Grants Management

C. Anticipated completion date for correction action.

August 31, 2021

If you have any questions, please contact Dr. Felicia Gavin at 601-359-5254.

Sincerely,

A handwritten signature in black ink that reads "Carey M. Wright".

Carey M. Wright, Ed.D.  
State Superintendent of Education

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## MISSISSIPPI DEPARTMENT *of* EMPLOYMENT SECURITY

OFFICE OF THE GOVERNOR  
JACQUELINE A. TURNER  
EXECUTIVE DIRECTOR

### FINANCIAL AUDIT FINDINGS

April 2, 2021

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

Dear Mr. White:

The Mississippi Department of Employment Security (hereafter MDES) team has reviewed the financial findings and have the following responses:

2020-005 Controls should be strengthened over Mississippi's Accountability System for Government Information and Collaboration (MAGIC) Segregation of Duties, and Quarterly Security Certification Process.

Response:

MDES concurs with the finding.

Corrective Action Plan:

MDES has reviewed the role assignments and the segregation of duties have been corrected.

2020-006 Controls should be strengthened over the reconciliation of the State's Financial Accounting System to the Third Party Unemployment Software - ReEmployUSA.

Response:

MDES concurs with the finding.

#### Corrective Action Plan:

MDES will strengthen controls over financial reporting by establishing a claims payable report in the system with predefined parameters for each program. MDES will also have the report's data approved by a knowledgeable Information Technology staff member before reporting on the GAAP Packet Reports.

#### 2020-007 Controls should be strengthened over Unemployment Insurance Benefits Paid

##### Response:

Other than to acknowledge that a number of overpayments and improper payments occurred, MDES respectfully disagrees with Finding 007 in its entirety, both in scope and holding. MDES properly complied with emergency measures enacted by both the federal government and the State of Mississippi in response to the COVID-19 pandemic. In order to explain the actions of MDES during this unprecedented pandemic, it is necessary to place the actions described in the audit finding in context, so that proper perspective, understanding, and appreciation can be ascertained.

On March 13, 2020, President Trump declared the COVID-19 pandemic a national emergency. On March 14, 2020, Governor Tate Reeves issued a Proclamation declaring a State of Emergency in the State of Mississippi. Because the COVID-19 pandemic was declared a national emergency both at the federal and state level, any resulting State or Federal Executive Order, or federal or state legislation, became law, and thus controlled the procedures of MDES. This new “emergency law” supplanted existing current state and federal law in many areas including certain state unemployment insurance statutes. Thus, normal agency measures, controls, practices, and other criteria, as referenced in Finding 007, conflicted with duly enacted Executive Orders and certain legislation, and therefore had to be adjusted. This need to adjust procedures clearly distinguishes 2020 from any other year in recent memory, and explains and supports the fact that MDES did not “waive” state law, rather, it followed all emergency law measures, which included the temporary suspension of certain eligibility requirements to expeditiously deliver much-needed relief to hundreds of thousands of Mississippians.

#### SUSPENSION OF ELIGIBILITY MEASURES

In order to adequately explain MDES’s decision to temporarily suspend certain unemployment insurance eligibility measures, and to modify other unemployment insurance statutes such as the weekly earnings allowance, it is necessary to review pertinent federal pandemic relief legislation enacted during the early stages of the pandemic. On March 18, 2020, President Trump signed the Families First Coronavirus Response Act (FFCRA), specifically Division D, the Emergency Unemployment Insurance Stabilization and Access Act of 2020 (EUISAA). Per the United States Department of Labor’s (DOL) guidance, “the EUISAA sets out requirements for emergency

administrative grants to states, and authorizes emergency flexibility allowing states to temporarily modify certain aspects of their unemployment compensation (UC) laws.”

In order to receive the emergency administrative grants under Section 903(h)(3)(B), SSA, (42 U.S.C. §1103(h)(3)(B)) pursuant to EUISAA, each state must show the “steps it has taken, ..., to ease eligibility requirements and access to UC, including: modifying or suspending work search requirements and the waiting week.”

In compliance with this statutory requirement, Mississippi then executed a series of Executive Orders which specifically addressed the directive to temporarily suspend the work search requirement and the one-week waiting period as well as provide flexibility in the interpretation of the able and available requirement.

Executive Orders also included a provision that temporarily increased the weekly earnings allowance, encouraging employers to retain employees in the face of the most generous temporary unemployment benefits measures in history. This modification proved highly successful, especially in the food industry. Another provision, although flagged by Finding 007, was also authorized by Executive Order, and allowed MDES to determine UI eligibility based on job separation from the most recent employer, rather than from all previous employers in the employee’s base period, as is the normal procedure. This measure expedited UI services to thousands of claimants filing for benefits en masse and at a most critical time. MDES temporarily modified its controls in order to comply with the provisions of EUISAA. In compliance with EUISAA, all of these modifications to Mississippi law were temporary. After these Executive Orders expired, MDES returned to its normal pre-COVID procedures.

The measures taken by MDES during the most severe part of the pandemic were necessary, proper under the circumstances, narrowly targeted in scope and time, and authorized by federal and state law. However, finding 007 indicates that MDES simply “opted to override existing controls” without support in state or federal law. Further, the report implies that the actions of MDES were the sole cause of the significant increase in claims and subsequent overpayments.

As explained herein, the requirements of the new federal unemployment provisions coupled with the unprecedented mass unemployment crisis, dictated the actions taken by MDES during the audit period in 2020. When the entire state shut down, except for essential services, for a number of weeks, claims naturally increased. Therefore, statistically speaking, it follows that the number of overpayments increased as a result of the increase in unemployment claims filed.

It is MDES’ position that the numerical figures from the relevant time period are more accurate: 94.5% of UI benefit payments went to eligible claimants, and resulted in identified overpayments of only 5.5%. Moreover, MDES would contend that the one-week waiting period, the work search requirements, and more flexibility in the able and available criteria are not, in fact, controls, but existing state law. MDES is unaware of any statutes which defines these state laws as controls.

When the Executive Order changed the law concerning these eligibility measures, MDES complied accordingly.

## VERIFICATION AND OVERPAYMENTS DISCUSSION

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES) which created new unemployment compensation programs. Because of the economic devastation created by the pandemic, the CARES Act specifically required MDES to pay claims for all applicants to these new federal pandemic unemployment insurance programs before fully verifying their identities and then establishing an overpayment in the event of an improper payment. The normal procedure mandates claimant identity verification first, before the payment of benefits.

The audit finding states that claims were approved without social security verification during the period March 2020 to May 2020, and that this procedure led to an increase in claims and prevented MDES from vetting those claims for fraud. This finding further remarks that the resulting overpayment total was comprised of different categories, specifically: fraudulent payments, payments to incarcerated and deceased individuals, and verification issues. However, overpayments and verification issues in these categories were a direct result of the pandemic. Specifically:

1. System and technical difficulties (including the Social Security verification issue) caused by the unprecedented number of UI claims being filed at the onset of the pandemic.
2. Suspension of eligibility measures mandated by federal and/or state law, which caused payment to incarcerated and deceased individuals.
3. Creation of new unemployment insurance programs, such as Pandemic Unemployment Assistance, which allowed the disbursement of unemployment benefits to categories of claimants that would otherwise be ineligible to receive benefits. This includes independent contractors and other individuals who would not normally be eligible to receive benefits under the UI system. This resulted in an increase in fraudulent payments.

Another category mentioned in the finding was payments made to individuals who never lost or had a reduction in wages. It is important to clarify that under the then-current Mississippi Employment Security Law, this type of payment was not defined as an overpayment. State law did not prohibit claimants from receiving voluntary payments from their employers in addition to the receipt of Unemployment Insurance benefits because the individual was not considered “unemployed.” Mississippi, however, has recently passed legislation that directly addresses this issue. The revised statute denies payment of unemployment insurance benefits to claimants who receive voluntary payments, up to the full amount of their wages, from their employers for the



same period covered by their unemployment insurance benefits. This prevents such an occurrence from ever happening again.

It is worth repeating that the total percentage of identified overpayments for 2020 was 5.5%. This overpayment total includes all of the categories listed in Finding 007. This means that 94.5% of all payments were valid, eligible claims that helped hundreds of thousands of Mississippians at a time of crisis. This is an incredible percentage considering the circumstances.

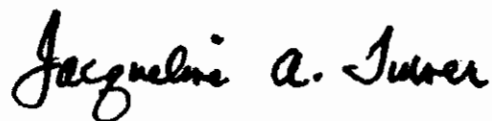
## CONCLUSION

During a pandemic, difficult issues arise that require prompt and decisive action. In normal non-pandemic times, if MDES had received an audit report finding such as Finding 007, it would have simply taken note and made the recommended changes. In this instance, however, MDES respectfully disagrees with this finding because it does not acknowledge or allow for the existence of this pandemic, or the radically new and different federal programs implemented during the disaster. 2020 was not just a regular year, and MDES respectfully disagrees with the conclusion of Finding 007 that MDES failed to follow policies and procedures because the normal rules and procedures were changed by state and federal law. MDES went to great lengths to follow the new, authorized rules and procedures that were put in place by Federal and State emergency declarations. Moreover, MDES will pursue all measures available to recoup all overpayments and improper payments incurred during the pandemic.

The audit report also recommended that MDES never disable or circumvent internal controls again in the future, however, should the same circumstances as those that occurred during the pandemic arise again, MDES would again follow state and federal law.

MDES appreciates the opportunity to respond to this Finding 007.

Sincerely,

A handwritten signature in black ink that reads "Jacqueline A. Turner". The script is cursive and fluid, with the first letters of each name being capitalized and prominent.

Jacqueline A. Turner  
Executive Director

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

**Auditor's note to the Corrective Action Plan from Mississippi Department of Employment Security (MDES) Management**

***Material Weakness***

**2020-007      Controls Should be Strengthened over Unemployment Insurance Benefits Paid.**

The Office of the State Auditor (OSA) acknowledges that the Mississippi Department of Employment Security (MDES) was faced with an unexpected and staggering task to ensure unemployment benefits were paid to individuals during the pandemic. OSA also acknowledges that certain federal guidelines were provided that MDES had to comply with in order to receive additional federal unemployment funds.

However, while MDES did receive federal guidance on making unemployment payments more accessible to those directly impacted by the pandemic, the options provided by the federal government were to either modify or suspend the work search requirements for individuals or employers directly impacted by COVID-19 due to an illness in the workplace or direction from a public health official to isolate or quarantine workers. States were also given the flexibility to respond to the COVID-19 emergency in a broader way, **if they chose to do so** (emphasis added by auditor). (*Unemployment Insurance Program Letter Number 13-20, Change 1, Attachment 1, Question 2*). MDES chose to suspend the requirement for all unemployment claims, and not only those that arose from an illness in the workplace or from an order to isolate or quarantine workers. The decision to implement broader flexibility and completely waive work search requirements were made by MDES. By MDES' own admission in other auditee responses to OSA, MDES stated that they requested the Governor's Office waive the specific requirements. Additionally, in each Executive Order (1462, 1481, 1502, and 1510), MDES was given flexibility to reassess and modify these measures prior to their expiration date in the orders.

Additionally, The Department of Labor (DOL) included program integrity language in all of the major pieces of guidance associated with the state implementation of the CARES Act programs and provisions (*Unemployment Insurance Program Letter Number 28-20*). Program Integrity requirements for the regular unemployment program and unemployment programs authorized by the CARES Act were to operate in tandem, and CARES Act program requires that states must ensure that only eligible individuals receive benefits (*Unemployment Insurance Program Letter Number 23-20*). Both UIPL letters 23-20 and 28-20 specify that the states must make efforts to rapidly and proactively prevent, detect, and investigate fraudulent activity; establish and recover fraud overpayments; and pursue criminal and civil prosecution to deter fraud. Specifically, states were strongly encouraged to implement the following measures to minimize fraud in the unemployment system:

- 1) Social Security Administration Cross Match
- 2) Systematic Alien Verification for Entitlement
- 3) Incarceration cross matches
- 4) Internet Protocol Address checks
- 5) Data Analytics to cross reference claims for indicators of fraud.

Furthermore, many of the most effective tools to deter and detect fraud were available to MDES in the Integrity Data Hub, and were available to states for well over a year. These included:

- 1) Interstate Suspicious Actor Repository to match claims across states
- 2) Foreign IP Address verification to receive flags on claims filed from IP addresses outside of the United States
- 3) Data Analytic tools
- 4) Fraud Alert Systems
- 5) Identify Verification for fraud scoring information, including flagging synthetic identities.

MDES has stated that they utilize the IDH; however, auditors cannot determine how effectively these programs were utilized considering the high amount of overpayments that were made during fiscal year 2020. Additionally, one of the specific fraud risks the UIDL, Incarceration cross matches, were not performed by MDES, and resulted in overpayments to incarcerated individuals. These incarcerated individuals were able to apply for benefits when MDES overrode or turned off the automated controls and did not implement any compensating controls to ensure payments were proper.

Lastly, the Corrective Action Plan provided by MDES stated that there were some individuals who never lost or had a reduction in wages and still received unemployment benefits due to the definition on unemployed in Mississippi State Law – a definition that has since been changed. In order to best explain this circumstance, it would result from an employer “voluntarily” paying his workers their normal pay even though the business was closed due to the pandemic. However, federal unemployment regulations have long stated that individuals are unemployed when they are “separated” from their positions. In fact, DOL has a longstanding legal interpretation of federal unemployment law that “unemployment” includes a reduction of both work hours and earnings; therefore, an individual who is not working, but has not experienced a reduction in income (including earnings, paid sick leave, and paid family leave), is not eligible to receive unemployment benefits (*Unemployment Insurance Program Letter Number 10-20*). While an individual might have been able to receive these payments and not have them classified as an “overpayment” under Mississippi law, federal law would have precluded these individuals from receiving unemployment payments under Pandemic Unemployment Assistance.

Regardless of the federal requirements or Executive Orders issued, MDES is still responsible for ensuring the accuracy of unemployment claims. In order to assure the accuracy of those claims, MDES should have implemented compensating controls to safeguard the unemployment trust fund when other controls were waived or overrode. The ultimate responsibility to ensure that unemployment payments were accurately paid out and that overpayments were kept to a minimum is the responsibility of MDES personnel.



**STATE OF MISSISSIPPI**  
GOVERNOR TATE REEVES

**DEPARTMENT OF FINANCE AND ADMINISTRATION**

LIZ WELCH  
EXECUTIVE DIRECTOR

**FINANCIAL AUDIT FINDINGS**

Shad White  
Office of the State Auditor  
State of Mississippi  
Post Office Box 956  
Jackson, Mississippi 39205-0956

April 19, 2021

Dear Mr. White,

In reference to your letter dated March 18, 2021, 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, 2020.

**AUDIT FINDINGS:**

**MATERIAL WEAKNESSES**

**Finding Number**

**2020-004**

**Response:**

**Finding Description**

Strengthen controls over change logs in SPAHRS

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.

DFA/MMRS is in process of upgrading the Adabas version to 8.5. This project, with assistance from ITS (MS Information Technology Services), will allow for Natural Security logging of the administrative application by authorized users from the TSO nucleus. Our planned logging implementation will incorporate a review of the logs

with signoff. This logging does not include processes ran in batch. DFA/MMRS is currently in the first Phase of implementation of the HR/Payroll MAGIC Project. This project implementation will move us off SPAHRS/Legacy systems.

**Corrective Action:**

- A. DFA is working on 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 June 1, 2023.
- D. N/A

**2020-010**

CFO 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. In

addition to providing training on the state accounting system, we also provide training on GAAP reporting for financial statement preparation. 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:**

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. DFA will also consider requiring attendance, however enforcement of that will be difficult.

B. Reginald Welch is the contact person responsible for this corrective action.

C. The corrective action will be implemented during fiscal year 2021.

D. N/A

**SIGNIFICANT DEFICIENCIES**

**2020-013**

Strengthen Controls over Journal Entries

**Response:**

We concur with this finding.

**Corrective Action:**

A. Financial Affairs will attach support for the requested postings by 06/30/2021. Additionally, OFA will begin reviewing our postings for support on no less than a

quarterly basis to ensure support is attached.

- B. Marcus Moore is the contact person responsible for this corrective action.
- C. The anticipated completion date is June 30, 2021.
- D. N/A

Sincerely,

A handwritten signature in black ink, appearing to read "Liz Welch", written in a cursive style.

Liz Welch  
Executive Director



March 30, 2021

**FINANCIAL AUDIT FINDINGS**

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

Dear Auditor White:

Enclosed for your review is the agency's official response and corrective action plan to the financial audit findings in the "Financial Audit Management Report" as outlined in the Mississippi Department of Human Services (MDHS) financial audit performed for the Fiscal Year 2020.

**FINANCIAL AUDIT FINDINGS:**

**2020-009**                      **Controls should be strengthened to ensure suspected fraud, waste, and abuse is appropriately reported and responded to in the Agency.**

**MDHS Response:**        MDHS is in agreement that controls should be strengthened to ensure suspected fraud, waste, and abuse is appropriately reported and responded to in the Agency.

**Corrective Action Plan:**        MDHS has established methods for both internal and external reporting of suspected fraud, waste, and abuse which includes a public facing form, a hotline, and email address. MDHS OIG receives tips weekly concerning alleged fraud, waste, and abuse that stems from the Federal and State programs administered by MDHS. MDHS currently has a manual process for tracking these tips. However, MDHS is working at this time with ITS on obtaining a case management system to better prioritize tips in an effort to respond to the alleged fraud in a more timely manner.

Additionally, MDHS has established an Office of Compliance, which has recently completed a concerted effort in establishing standard operating procedures for all divisions. Thus, MDHS OIG has also established standard operating procedures on the investigative process and has also started working jointly with our Federal counterparts concerning investigations that involve

Federal funds. The Office of Compliance has conducted training of agency employees on how to confidentially report potential compliance issues and continues to build out the compliance function for the agency as a whole, as discussed in more detail below.

MDHS understands that the former Executive Director (JD) created a tone at the top, failed to embrace ethical values, and fostered an atmosphere that lacked integrity. Thus, when the Executive Director Anderson was appointed he prioritized initiating a Request for Information for a Forensic Audit to be completed concerning every Temporary Assistance for Needy Families (TANF) transaction from January 1, 2016 through December 30, 2020 during the tenure of the former Executive Director (JD). The Request for Information for the Forensic Audit was issued on April 30, 2020, a full two months prior to the end of the State Fiscal Year that this report addresses. Furthermore, the Office of the State Auditor (OSA) was a third -part to the RFI and is a third-party to the contract that MDHS entered into with an independent auditing firm to conduct the forensic audit.

Specifically, the services of the Forensic Audit are briefly listed below:

1. Current MDHS internal controls related to processing TANF agreements (subgrants/contracts) and MDHS issued payments to TANF subrecipients;
2. MDHS internal controls during the subject audit period from January 1, 2016 to December 31, 2019 related to processing TANF agreements (subgrants/contracts) and MDHS issued payments to TANF subrecipients and an analysis of whether and how these controls failed and/or were circumvented by MDHS personnel, including but not limited to the former Executive Director;
3. MDHS payments made to TANF subrecipients during the subject audit period were allowable pursuant to federal requirements, State law, MDHS policies and procedures and the applicable agreement scope;
4. Authenticity of TANF subrecipient payment requests and that such requests included appropriate supporting documentation in accordance with policies and procedures in existence at the time of the requests;
5. Allowability of TANF subgrant/contract scopes as compared against TANF requirements, State law, MDHS policies and procedures and federal guidelines;
6. TANF subrecipient general ledgers and financial records for agreement periods occurring within the subject audit period to identify any accounting irregularities not in compliance with federal regulations;
7. Subrecipient general ledgers for all grants awarded to Mississippi Community Education Center and Family Resource Center under any MDHS TANF-funded program;

8. Allowability of subawards issued by TANF Subrecipients to third-tier subrecipients pursuant to MDHS requirements, policies and procedures and applicable federal requirements; and
9. Any analysis of all TANF-funded subgrants/contracts and subsequent payments executed and issued at the direction of the MDHS Executive Director during the subject audit period.
10. Any other issues identified during the course of the audit related to TANF subgrant awards during the subject time.

MDHS is waiting for the completion of the Forensic Audit before a close-out is performed for MCEC. MDHS received a letter from OSA directly on or about December 27, 2019, which stated that, "...they have discovered evidence that one of the recipients of grant money from DHS may have spent money on unallowable costs." OSA further elaborates, "...it is important that you know there are likely serious findings on the horizon around the use of TANF grant money..." MDHS is concerned about the authenticity of MCEC documents due to submission of numerous versions of the same request in a monitoring visit. MDHS is unable to validate the authenticity of the submitted records and claims to be paid to MCEC for a closeout to occur. This inability to validate MCEC's records is further complicated by the fact that the principals of MCEC are currently under indictment and essentially unavailable to MDHS to review any further documentation or answer questions. Once the Forensic Audit, which OSA is a party, is complete, MDHS will then finalize said close-outs with MCEC and FRC.

Furthermore, in January 2020, MDHS implemented a Request for Proposal process to award all future TANF subgrants. There is an individual scoring committee for the TANF RFP comprised of employees of MDHS and other agencies. Since October 2020, MDHS also offers training to awarded TANF partner organizations that covers the MDHS Subgrant Manual, as well as, proper submission of claim forms and supporting documentation, fiscal monitoring process and compliance, and property management. MDHS has also offered general grant-writing training to prospective subgrantees to educate and inform them on the type of subgrantee partners that MDHS is seeking to implement its TANF subgrant.

Finally, on May 1, 2020, Executive Director Anderson appointed the agency's first Chief Compliance Officer, who set about creating *ex nihilo* an agency-wide compliance function. Among the various aspects of that compliance function are included more robust subgrant monitoring functions, expanded programmatic quality control review functions, amendments to the agency's Subgrant Manual, and training of all agency employees on compliance as noted



above. The Chief Compliance Officer was recently designated as the Principal Deputy Executive Director of MDHS. Thus, the Executive Director has established and reiterated that the agency is committed to integrity, compliance, and moving the agency toward excellence.

Bridgette Bell, Deputy Executive Director of Procurement and Finance is the responsible party for implementing the Corrective Action Plan. The anticipated completion date is September 30, 2021.

**2020-008**

**Controls should be strengthened to ensure proper review processes for financial reporting.**

**MDHS Response:** MDHS is in agreement that controls should be strengthened to ensure proper review processes for financial reporting.

**Corrective Action Plan:**

MDHS acknowledges weaknesses in some of its controls regarding review and submission of its GAAP packet. MDHS has implemented additional SOPs to fill the gaps between units within B&A. MDHS will work to increase the communication within B&A, implement further levels of review, and reach out to our cognizant agency for training related to the Subgrant Federal Activity Schedule.

To begin, the Grant Schedule was revised in respect to the Federal Subgrant Activity Schedule. The Grant Schedule is prepared using Federal expenditure reports at June 30 cumulative expenses. The line item accruals were not reconciled to the TANF programmatic federal fiscal year end reporting since they are estimates based on one month. The TANF funding code was used on the line item accrual entries, as it has been in the past; however, this was corrected and split between several funding streams instead of one. MDHS B&A has policies in place for GAAP preparation and submission; however, additional levels of review to include a combined review from both units were added to strengthen safeguards. The OFR accrual certification process will go through a more rigorous three level review process.

Additionally, in the instance in which the accounts receivable transaction were miscoded to account 1200000, MDHS agrees that an adjustment is needed to correct the balance. MDHS will take the necessary corrective action to ensure that the correct rates are used to make the entries in future GAAP adjustments.

Furthermore, MDHS implemented a two-level review for documentation required for the accounts receivable entry. MDHS agrees that rates used for account receivable estimates did not have updated or a written methodology.

MDHS updated the methodology and added the written process to the unit's SOPs.

Lastly, MDHS will foster better communication within the divisions to ensure the accuracy in calculating the estimated accruals. MDHS will verify that all formulas are tested before submitting the entries to OFR. MDHS will be updating the SOPs to reflect the verification process.

Bridgette Bell, Deputy Executive Director of Procurement and Finance is the responsible party for implementing the Corrective Action Plan. The anticipated completion date is July 1, 2021.

We appreciate the courtesy and professionalism demonstrated by Emily Mathis and her field staff throughout the audit. Should you have any questions regarding our responses or corrective action plan, please do not hesitate to contact Hadley Eisenberger, Inspector General, at 601-359-4939.

Respectfully,



Robert G. Anderson  
Executive Director

pc: Sandra Griffith, Chief Compliance Officer  
Bridgette Bell, Deputy Executive of Finance and Procurement  
Patrick Black, General Counsel  
Hadley Eisenberger, Inspector General

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**STATE OF MISSISSIPPI**

Tate Reeves  
Governor

**MISSISSIPPI DEPARTMENT OF MARINE RESOURCES**

Joe Spraggins, Executive Director

**FINANCIAL AUDIT FINDINGS**

March 9, 2021

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

Dear Mr. White:

The Mississippi Department of Marine Resources has received the drafted audit report and drafted finding for the FY20 agency audit. Please find our response below to finding 2020-014 as well as our corrective action plan.

**AUDIT FINDINGS:**

**2020-014**      Correction of an Error

Response: The Department of Marine Resources recognizes revenue on a cash basis. All funds are recorded in full as they are received by the agency. Originally in FY18, the funds in the finding were set up in a non-federal fund because it was not deemed federal grant money. In FY19, during the lapse period, the agency was informed by ONRR that the funds were deemed federal money. A new fund was established so that the entries moving forward would be recorded in the correct fund. Discussions with DFA included what to do with the funding that was already recorded and housed in the initial fund. No corrective could be taken at the time due to the close of lapse period. Subsequently, at the close of FY20, we learned from the Mississippi State Auditor's Office that these funds were in fact not deemed federal assistance and needed to be transferred to a different fund. After transferring the revenue to the appropriate fund, the Department of Finance made a transfer to move the cash balance to the appropriate fund as well. In doing so those funds got transferred to a revenue account instead of a transfer from one cash account to another cash account. The result was an overstatement of revenue by \$40,965,429 which we were unable to correct. Although this entry does need to be made

to correct this error and adjust the books, the Mississippi Department of Marine Resources does not feel this error is a material weakness in our internal control. We do, however, recognize that revenue, for GAAP purposes, should be deferred if not earned by fiscal year end.

Corrective Action Plan:

- A. To reclassify any revenue that has not been earned by the end of the fiscal year to an unearned revenue account.

Sincerely,

A handwritten signature in black ink that reads "Joe Spraggins". The signature is written in a cursive, flowing style.

Joe Spraggins  
Executive Director  
Mississippi Department of Marine Resources





**STATE OF MISSISSIPPI**  
TATE REEVES, GOVERNOR  
**DEPARTMENT OF PUBLIC SAFETY**  
SEAN J. TINDELL, COMMISSIONER

**FINANCIAL AUDIT FINDINGS**

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

February 12, 2021

Dear Mr. White:

Please see our response and corrective action plan for the financial audit findings related to the June 30, 2020 financial statement audit.

**AUDIT FINDINGS:**

**2020-015** Inventory - Material Weakness In Internal Control

Response: The State of Mississippi Department of Public Safety concurs with the audit finding.

**Corrective Action Plan:**

- A. Specific steps to be taken to correct the situation: The State of Mississippi Department of Public Safety will draft and implement written policies and procedures to ensure inventory is properly maintained.
- B. Name of the contact person responsible for corrective action: Alison Brown, Comptroller
- C. Anticipated completion date for corrective action: June 30, 2021

**2020-016** Financial Reporting - Material Weakness In Internal Control

Response: The State of Mississippi Department of Public Safety concurs with the audit finding.

**Corrective Action Plan:**

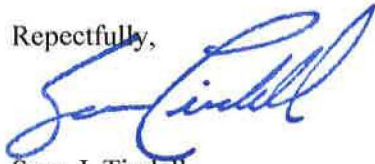
- A. Specific steps to be taken to correct the situation: The State of Mississippi Department of Public Safety will implement additional procedures which will require the Deputy Commissioner of Finance and the Commissioner of the State of Mississippi Department of Public Safety to approve the generally accepted accounting principal package prior to its annual submission to the State of Mississippi Department of Finance and Administration for recording the year end adjustments.

Shad White, State Auditor  
Office of the State Auditor  
Page 2 of 2

February 12, 2021

- B. Name of the contact person responsible for corrective action: Steven McDevitt, Deputy Commissioner, Finance
- C. Anticipated completion date for corrective action: June 30, 2021

Respectfully,



Sean J. Tindell  
Commissioner  
MS Department of Public Safety



## **FINANCIAL AUDIT FINDINGS**

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

March 31, 2021

Dear Mr. White:

We have reviewed the single audit findings in reference to our fiscal year 2020 audit. Listed below are our individual responses and plans for corrective action:

### **AUDIT FINDINGS:**

2020-011     Controls Should Be Strengthened Over the Preparation and Review of the Schedule of Expenditures of Federal Awards and Estimated Claims Payable.

### **Response:**

The Division agrees with the exceptions noted on the Schedule of Expenditures of Federal Awards and the Estimated Claims Payable calculation.

### **Corrective Action Plan:**

- A. The Division understands the importance of this information and will strengthen controls over the preparation and review of the year end reports. The Office of Financial Reporting is now fully staffed and trained and has an additional Budget Director reporting to the Comptroller. This will allow the responsibility for creation and review of the GAAP packet and associated entries, the agency budget, and the federal expenditure reports, which are all due at the end of July, to be better allocated across staff.

To provide further controls over the preparation of these reports, the Division is creating a schedule of GAAP reporting duties, allowing those to be assigned and completed earlier and providing for a thorough review and rework, if necessary. Additionally, the agency has

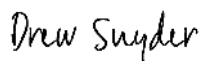
Office of the State Auditor  
March 31, 2021

identified reports that can be used from the Payment Management System (PMS) to ensure all grant information is correct prior to submission of the grant schedule.

B. Christine Woodberry

C. June 30, 2021

Sincerely,

A handwritten signature in black ink that reads "Drew Snyder". The signature is written in a cursive, slightly slanted style.

Drew L. Snyder  
Executive Director



## **FINANCIAL AUDIT FINDINGS**

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

October 8, 2020

Dear Mr. White,

Below is a summary of the MPIC responses to the 6/30/20 FY audit findings.

### **AUDIT FINDINGS:**

#### **2020-001      Material Weakness in Maintenance of Source Documents**

Response: MPIC concurs with the finding. A financial reporting system requires an appropriate review function to ensure that all relevant information is processed correctly and appropriately assimilated into the financial reporting process.

#### **Corrective Action Plan:**

- A. Specific steps to be taken to correct the situation – The accounting department is enforcing stronger controls to make sure every receipt and expense report has the proper set of documentation attached. If the employee does not adhere to the policy, they will be moved to an out of pocket and reimbursement style of purchasing only.
- B. Name(s) of the contact person(s) responsible for corrective action-Ryan Ratcliff, Controller and Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 10/31/2020 **COMPLETED**

#### **2020-002      Material Weakness over Inventory Controls**

Response: MPIC concurs with the finding and is aware that the inventory controls should be strengthened to make sure no misstatements are made, and inventory is accurately stated.

#### **Corrective Action Plan:**

- A. Specific steps to be taken to correct the situation – We have begun implementing the inventory software (Fishbowl Inventory) that is currently in place. Each shop has established a month-end



reconciling system in which they send accounting daily inventory tracking tickets that tie back to a master spreadsheet. Accounting will start matching these tracking tickets against customer sales orders that get billed.

- B. Name(s) of the contact person(s) responsible for corrective action-Ryan Ratcliff, Controller and Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 12/31/2020 **IN PROCESS**

**2020-003      Material Weakness in Pension and Postemployment Benefit Liability Controls**

Response: MPIC concurs with the finding. MPIC is aware that the internal accounting department was tasked with preparing the Pension and Postemployment benefits calculations internally. Going forward, the department will learn how to prepare the schedule and adjustments.

**Corrective Action Plan:**

- A. Specific steps to be taken to correct the situation – The accounting department will take the steps to learn how to prepare and calculate the allocation entry for pension and post-employment benefits without the assistance of the CPA audit firm.
- B. Name(s) of the contact person(s) responsible for corrective action-Ryan Ratcliff, Controller and Bradley Lum, CEO

Anticipated completion date for corrective action: 6/30/2021

**Bradley Lum, CEO**

**Ryan Ratcliff, Controller**





## **FINANCIAL AUDIT FINDINGS**

March 29, 2021

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 March 16, 2021, the Office of the State Treasurer (OST) is providing the following responses for the financial audit findings for the fiscal year Ended June 30, 2020.

### **AUDIT FINDINGS:**

**2020-017**      Controls Should Be Strengthened to Ensure Compliance with State Law over Cancellation of Warrants, and over Maintenance of a Proper Audit Trail.

Response:      We concur with this finding and will strengthen controls over compliance with State Law over cancellation of warrants and maintenance of a proper audit trail.

#### **Corrective Action Plan:**

- A.              OST has strengthened controls to ensure compliance with state law over cancelled warrants by reviewing OST's processes, updating original IMS fund information and Business Areas to match updated MAGIC funds and Business Areas allowing for processing of cancelled warrants received prior to the implementation of MAGIC.
- B.              Laura Law-Director of Accounting & Bonds
- C.              July 1, 2021

**OTH-20-03**     Controls Should Be Strengthened over Accruals to Properly Record Transfers in the Correct Fiscal Year.

Response:     We concur with this finding and will strengthen controls over accruals to properly record transfer in the correct fiscal year.

Corrective Action Plan:

- A.             OST has strengthened controls to ensure accruals are processed in the correct fiscal year. In the event there is a delayed, or lapse transaction recorded in July or a month following the end of a fiscal year, OST staff will escalate to appropriate internal and external Agency leadership to confirm effective date and correct fiscal year.
- B.             Justin Smith – Director of Investments, Cash Management, & Collateral
- C.             July 1, 2021

**OTH-20-04**     Controls Should Be Strengthened to Ensure Arbitrage Calculations are Performed in a Timely Manner.

Response:     We concur with the finding and will strengthen controls over Arbitrage Calculations.

Corrective Action Plan:

- A.             OST has worked to strengthen controls to ensure all bonds are monitored for the timing of arbitrage calculations and rebate submissions happen in accordance with the Internal Revenue Service Regulations. We will further strengthen controls in the upcoming year.
- B.             Laura Law - Director of Accounting & Bonds
- C.             July 1, 2021



**OTH-20-02**     Controls Should Be Strengthened to Ensure Compliance with State Laws over the Public Depository Information.

Response:     We concur with this finding and will strengthen controls to ensure compliance with state laws over the public depository information.

Corrective Action Plan:

- A.             OST has strengthened controls to ensure compliance with state laws by enhancing the annual review of qualified public depositors' applications to include a comparison of reported data to the Federal Deposit Insurance Corporation (FDIC). An audit trail for all monthly safekeeper reconciliations has been established to ensure all proper documentation has been collected and completed.
- B.             Justin Smith – Director of Investments, Cash Management, & Collateral
- C.             July 1, 2021

Sincerely,

A handwritten signature in black ink, appearing to read "David McRae", with a stylized flourish at the end.

David McRae  
Treasurer  
State of Mississippi

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