



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

March 18, 2021

**Financial Audit Management Report**

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

Dear Ms. Welch:

Enclosed for your review are the financial audit findings for the Mississippi Department of Finance and Administration (DFA) for the fiscal year ended June 30, 2020. In these findings, the Auditor's Office recommends the Mississippi Department of Finance and Administration:

1. Strengthen Controls Over the Change Logs of the Statewide Payroll and Human Resource System;
2. Require Chief Fiscal Officers of State Agencies to hold Minimum Accounting Qualifications and Attend Mandatory Training; and,
3. Strengthen Controls Over Journal Entries.

Please review the recommendations and submit a plan to implement them by March 31, 2021. The enclosed findings contain more information about our recommendations.

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

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

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

Mississippi Department of Finance  
and Administration

March 18, 2021

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

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is fluid and cursive, with the first name "Stephanie" and last name "Palmertree" clearly legible.

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

## FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Mississippi for the year ended June 30, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

### Internal Control over Financial Reporting

In planning and performing our audit of the Department of Finance and Administration (DFA) included in the financial statements of the State of Mississippi as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered DFA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Accordingly, we do not express an opinion on the effectiveness of DFA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did identify the following deficiencies, identified in this letter as items **2020-004** and **2020-010**, to be material weaknesses. Additionally, we identified the deficiency identified in this letter as **2020-013** to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the State of Mississippi are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **MATERIAL WEAKNESSES**

<b><u>Finding Number</u></b>	<b><u>Finding and Recommendation</u></b>
2020-004	<u>Department of Finance and Administration Should Strengthen Controls Over the Change Logs of the Statewide Payroll and Human Resource System (SPAHRS).</u>
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: <ul style="list-style-type: none"><li>• Security logging was not enabled in the Natural Security log settings.</li><li>• Reconciliations between approved changes and changes occurring in the change log are not being performed.</li></ul>
Cause	There are inadequate controls surrounding SPAHRS security logging.
Effect	Failure to adequately log transactional changes and to periodically review logs for appropriateness could result in untimely modification of data, security configuration changes, or fictitious transactions.
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.
2020-010	<u>The State of Mississippi Should Require Chief Fiscal Officers of State Agencies to hold Minimum Accounting Qualifications and Attend Mandatory Training.</u>
Repeat Finding	Yes; 2016-012, 2017-006, 2018-024 and 2019-015; Material Weakness Findings
Criteria	<p><i>Section 7-7-3 Miss. Code Ann. (1972)</i> states that the State Fiscal Officer (as defined by <i>Section 21-104-6 Miss. Code Ann. (1972)</i> as the Executive Director of the Department of Finance and Administration shall conduct training seminars on a regular basis to ensure that agencies have access to persons proficient in the correct use of the statewide accounting system.</p> <p><i>Section 7-7-211 Miss. Code Ann. (1972)</i> authorizes the State Auditor to establish training course and programs for the personnel of the various state and local governmental entities. These courses shall include, but are not limited to, topics on internal control, purchasing and property, governmental accounting and financial reporting, and internal auditing.</p>

*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 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.

**Condition** 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.

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.

**Cause** Lack of consistently applied agency qualifications for accounting personnel.

**Effect** The failure of the State to hire and retain competent staff could result in material misstatement of the financial statements.

**Recommendation** We recommend the Department of Finance and Administration implement mandatory training sessions for accounting personnel and Chief Fiscal Officers. Additionally, we recommend the State of Mississippi implement minimum qualifications for Chief Financial Officers.

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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.

<b>Cause</b>	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.
<b>Effect</b>	Not maintaining supporting documentation for journal entries could result in material misstatement of the financial statements to go undetected and uncorrected.
<b>Recommendation</b>	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.

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**End of Report**



**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

**2018-024**

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 blue ink, appearing to read "Liz Welch". The signature is fluid and cursive, with the first name "Liz" and last name "Welch" clearly distinguishable.

Liz Welch  
Executive Director