



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

March 31, 2021

Financial Audit Management Report

Honorable David McRae, State Treasurer
Office of the State Treasurer
P. O. Box 138
Jackson, MS 39205

Dear Treasurer McRae:

Enclosed for your review are the financial audit findings for the Office of the State Treasurer for the Fiscal Year 2021. In these findings, the Auditor's Office recommends the Office of the State Treasurer:

1. Strengthen Controls to Ensure Public Depositories are Properly Collateralized According to Mississippi Code.

Please review the recommendation and submit a plan to implement it by April 15, 2022. The enclosed finding contains more information about our recommendation.

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 Office of the State Treasurer's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office of the State Treasurer's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Office of the State Treasurer to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Office of the State Treasurer throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink, reading "Stephanie C. Palmertree".

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

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Office of the State Treasurer for the year ended June 30, 2021. These financial statements will be consolidated into the State of Mississippi's *Annual Comprehensive Financial Report*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements of the Office of the State Treasurer as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Office of the State Treasurer's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Treasurer's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Office of the State Treasurer are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*. This matter is identified under the heading **IMMATERIAL NONCOMPLIANCE AND OTHER MATTERS** as item **OTH-2021-001**.

Findings and Recommendations

IMMATERIAL NONCOMPLIANCE AND OTHER MATTERS

OTH-21-01 Strengthen Controls to Ensure Public Depositories are Properly Collateralized According to Mississippi Code.

Repeat Finding No.

Criteria *Section 27-105-5 (1) Miss. Code Ann. (1972) states, "When so approved by the State Treasurer, the institution shall place on deposit with the State Treasurer qualified bonds, notes and liquid securities in an aggregate amount at least equal to one hundred five percent (105%) of the average daily balance of funds on deposit in the aggregate by the State of Mississippi or any agency or department of the state or by any county, municipality or other governmental unit in excess of that portion of accounts insured by the Federal Deposit Insurance Corporation, or any successor thereto."*

Office of State Treasurer Collateral Security Agreement paragraph 7, "If at any time the aggregate market value of such Collateral so deposited with Custodian is less than the total sum required under said statutes, Bank shall within one business day deposit with Custodian such additional Collateral as may be necessary to cause the market value of such Collateral to equal the total amount of required Collateral."

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 control activities- "Personnel with sufficient authority perform control activities with diligence and continuing focus."

Condition During review of "Collateralization of State Funds", 18 banks were noted to have extended periods of being under collateralized balance, with an average of eight days before additional collateral were deposited to correct under collateralization.

Cause Agency had a large turnover of staff performing the functions, and the supervisor did not perform an additional review of new staff duties to ensure compliance had been met.

Effect Without proper controls over the collateralization of state funds, the Agency runs the risk of having banks that are under collateralized. By having funds in banks that under collateralized, the State faces a risk of losing funds due to possible bank failure.

Recommendation Agency should strengthen controls to ensure banks are maintaining adequate collateralization as a public depository.



FINANCIAL AUDIT FINDINGS

March 31, 2021

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

Dear Mr. White:

In accordance with your correspondence dated March 31, 2021, the Office of the State Treasurer (OST) is providing the following response for the financial audit finding for the fiscal year ended June 30, 2021.

AUDIT FINDINGS:

OTH-21-01 Strengthen Controls to Ensure Public Depositories are Properly Collateralized According to Mississippi Code

Response: We concur with this finding and strengthened controls to ensure public depositories are properly collateralized according to Mississippi Code.

Corrective Action Plan:

- A. OST has strengthened controls to ensure public depositories are properly collateralized. Staff created the "Under Pledged Bank Tracker" tool to monitor and resolve collateralization discrepancies. The tool is built and updated daily using data collected from the "Daily Market Value Spreadsheet" and records the relevant dates and correspondence for the lifecycle of the exception. Although it does not prevent an exception from occurring, this tracking spreadsheet has effectively reduced extended periods of undercollateralized banks.
- B. Justin Smith – Director of Investments, Cash Management, & Collateral

C. April 1, 2021

D. N/A

Sincerely,

A handwritten signature in black ink, reading "David McRae". The signature is written in a cursive style with a large, stylized "D" and "M".

David McRae
Treasurer
State of Mississippi