



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

March 22, 2023

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 is the financial audit finding for the Office of the State Treasurer for the Fiscal Year 2022. In this finding, the Auditor's Office recommends the Office of the State Treasurer:

1. Strengthen Controls to Ensure Correct Reports for Equity in Internal Investments are Sent to Department of Finance and Administration to Make the Market Value Adjustment.

Please review the recommendation and submit a plan to implement it by March 28, 2023. The enclosed finding contains more information about our recommendation.

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

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

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

Sincerely,

A handwritten signature in blue ink that reads "Angela Mire".

Angela Mire, CPA, CFE
Director, Agency 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, 2022. 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, 2022, 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.

Our consideration of internal control was for the limited purpose described in the preceding 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, as discussed below, we identified certain deficiencies in internal control that we consider to be 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 did not identify any deficiencies in internal control that we consider 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 deficiency identified in the letter as item **2022-013** to be a significant deficiency.

Compliance and Other Matters

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

Finding and Recommendation

SIGNIFICANT DEFICIENCY

2022-013	<u>Strengthen Controls to Ensure Correct Reports for Equity in Internal Investments are Sent to Department of Finance and Administration to Make the Market Value Adjustment.</u>
Repeat Finding	No
Criteria	The <i>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) 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.
Condition	While performing testwork related to Equity in Internal Investment, the auditor noted that the Office of the State Treasurer had sent the Department of Finance and Administration the incorrect report for use in calculating the adjustment to market value for investments in the internal investment pool.
Cause	OST did not apply proper oversight when running the report requested by DFA.
Effect	Equity in Internal Investments was overstated for fiscal year 2022 by \$348,916,698 and required an audit adjustment.
Recommendation	We recommend management at Office of the State Treasurer strengthen controls to ensure correct reports are run for determining market value adjustments.

End of Report



FINANCIAL AUDIT FINDINGS

April 21, 2023

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 22, 2023, the Office of the State Treasurer (OST) is providing the following response for the financial audit finding for the fiscal year ended June 30, 2022.

AUDIT FINDINGS:

Strengthen Controls to Ensure Correct Reports for Equity in Internal Investments are Sent to Department of Finance and Administration to Make the Market Value Adjustment

Response: We concur with this finding and will strengthen controls to ensure correct reports for equity in internal investments are sent to Department of Finance and Administration to make market value adjustments.

Corrective Action Plan:

- A. OST has strengthened controls to ensure correct reports for equity in internal investments are sent to Department of Finance and Administration to make the market value adjustment. OST has updated internal ACFR instructions noting that upon request of the Earnings Apportionment report as of FY from Department of Finance and Administration, to use the unrealized market value amount "Above/Below" on the Inventory Watermark as the interest amount for the report date requested going forward.



- B. Justin Smith – Director of Investments, Cash Management, & Collateral
- C. July 1, 2023
- D. N/A

Sincerely,

David McRae
Treasurer
State of Mississippi