



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

June 21, 2004

Limited Internal Control and Compliance Review Management Report

Elbert R. Hilliard, Director
Mississippi Department of Archives and History
P. O. Box 571
Jackson, Mississippi 39205-0571

Dear Mr. Hilliard:

Enclosed for your review are the limited internal control and compliance review findings for the Mississippi Department of Archives and History for the Fiscal Year 2003. In these findings, the Auditor's Office recommends the Mississippi Department of Archives and History:

1. Strengthen controls over bank accounts;
2. Strengthen controls over cash receipts;
3. Reconcile the collateral sufficiency analysis reports to the agency records;
4. Comply with state purchasing laws;
5. Deposit funds to bank accounts promptly and transfer funds to the state treasury timely;
6. Report general fixed assets timely; and
7. Update the bank account authorization form.

Please review the recommendations and submit a plan to implement them by July 14, 2004. 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.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Sincerely,

Phil Bryant
State Auditor

Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi Department of Archives and History for the year ended June 30, 2003. The Office of the State Auditor's staff members participating in this engagement included Rob Robertson, Liza Hammett, Jay Strait, and Oliver Strange.

The fieldwork for review procedures and tests was completed on March 25, 2004. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses. 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.

In performing our review, we noted matters involving the internal control over financial reporting and instances of noncompliance that require the attention of management. These matters are noted under the headings **IMMATERIAL WEAKNESSES IN INTERNAL CONTROLS** and **INSTANCES OF NONCOMPLIANCE WITH STATE LAWS**.

IMMATERIAL WEAKNESSES IN INTERNAL CONTROLS

Controls over Bank Accounts Should Be Strengthened

Finding:

During a review of bank accounts at the Mississippi Department of Archives and History, we noted checks were not stored in a secure location during the day. We also noted the agency failed to perform monthly bank account reconciliations in a timely manner. Good internal controls dictate checks be stored in a secure location at all times. Good internal controls also dictate reconciliations of bank accounts with accounting records be performed timely. Failure to store unissued checks in a secure location and prepare monthly bank account reconciliations timely could result in errors or fraud occurring without being detected in a timely manner.

Recommendation:

We recommend the Mississippi Department of Archives and History store unissued checks in a secure location. We also recommend the agency perform reconciliations of bank accounts with accounting records in a timely manner.

Controls over Cash Receipts Should Be Strengthened

Finding:

During our review of controls over cash receipts at the Mississippi Department of Archives and History, we noted the following weaknesses:

- Funds received by the accounting department from satellite locations, as well as funds received directly in the accounting department were not stored in a secure location during the day.

- Checks were not restrictively endorsed immediately upon receipt at satellite locations. This included usage fees received at the Governor's Mansion and sales at the Old Capitol Museum Sales Shop.
- Funds logged for the rental and use of the Governor's Mansion, as well as donations received at the Governor's Mansion were sent to the accounting department for deposit. However, we noted there was no verification performed in the accounting department to ensure agreement between the receipts log and the subsequent deposit.
- The receipt log maintained for the rental and use of the Old Capitol did not include the date of receipt.

Good internal controls require procedures be in place to adequately safeguard assets. Lack of adequate internal controls could result in errors or fraud occurring without being detected promptly.

Recommendation:

We recommend the Mississippi Department of Archives and History strengthen internal controls over cash receipts by ensuring receipts are stored in a secure location once received by the accounting department. All checks should be restrictively endorsed immediately upon receipt, and receipt logs should include the date of receipt. Also, the receipt logs should be reconciled to accounting records and subsequent deposits.

Reconciliations of the Collateral Sufficiency Analysis Reports to Agency Records Should Be Performed

Finding:

Bank account testwork at the Mississippi Department of Archives and History revealed the agency did not reconcile its bank accounts to the State Treasury's Collateral Sufficiency Analysis reports during fiscal year 2003. Quarterly, the State Treasury sends each agency a Collateral Sufficiency Analysis report which discloses actual and average daily account balances in total and by account type. Good internal controls dictate the agency prepare quarterly reconciliations to the Collateral Sufficiency Analysis reports to ensure account balances on the report are accurate. This in turn enables the State Treasury to ascertain the collateral level for each bank holding state deposits. Failure to perform quarterly reconciliations could result in an incorrect balance on the report and could result in the deposits not being properly collateralized.

Recommendation:

We recommend the Mississippi Department of Archives and History prepare quarterly reconciliations to the Collateral Sufficiency Analysis reports. Any differences noted should be investigated and reported to the State Treasury.

INSTANCES OF NONCOMPLIANCE WITH STATE LAWS

Agency Should Comply with State Purchasing Laws

Finding:

During contractual expenditure testwork at the Mississippi Department of Archives and History, we noted two instances out of 25 tested, or eight percent, in which the purchase order was prepared after the date of the invoice. Section 7-7-23, Miss. Code Ann. (1972), states that purchases of equipment, supplies, materials or services of whatever kind or nature for any department, officer, institutions or other agency of the state, may be made only by written purchase orders duly signed by the official authorized to do so, on forms prescribed the state Fiscal Officer. It further states it shall be the duty of the proper official in each department or agency to forward a copy of each purchase order to the Department of Finance and Administration the same day the said order is issued. Failure to follow this state regulation could impede the agency's and the Department of Finance and Administration's ability to maintain budgetary control over expenditures.

Recommendation:

We recommend the Mississippi Department of Archives and History comply with state purchasing laws by ensuring purchase orders are prepared and approved prior to goods and services being ordered.

Funds Should Be Deposited to Bank Accounts Promptly and Transfers to the State Treasury Should Be Timely

Finding:

Cash receipts testwork performed at the Mississippi Department of Archives and History revealed the following:

- Five of five receipts examined, or 100 percent, which were required to be deposited into the state treasury were not deposited promptly.
- Four of 12 receipts examined, or 33 percent, which were required to be deposited into an agency bank account were not deposited promptly.
- Eleven of 15 receipts examined, or 73 percent, which were required to be deposited into the agency's clearing account were not deposited promptly. Also, 13 of 15 receipts examined, or 87 percent, which were required to be transferred to the state treasury were not transferred in a timely manner.

A good system of internal controls dictates cash receipts be deposited into the agency's bank account or clearing account promptly to reduce the likelihood of loss or theft. In addition, Section 7-9-21, Miss. Code Ann. (1972), requires funds to be deposited into the state treasury no later than the end of the next business day following the date of collection. At the request of a state agency, the State Fiscal Officer, with the advice and consent of the State Treasurer, may by regulation provide for other than daily deposits by the agency. The untimely deposit and/or transfer of funds may result in the loss of interest earnings and increase the risk of theft and/or misplacement of funds while held at the agency level.

Recommendation:

We recommend the Mississippi Department of Archives and History ensure cash receipts are deposited into the agency's bank accounts or clearing account promptly upon receipt and ensure transfers to the state treasury are timely as required by state law.

General Fixed Assets Should Be Reported Timely

Finding:

During testwork at the Mississippi Department of Archives and History, it was noted a land addition was not reported to the State Property Office in a timely manner. The land was acquired in August 2002 but not reported to the State Property Office until March 2003. Section 29-9-11, Miss. Code Ann. (1972), requires any additions/deletions to an agency's inventory for the prior month be reported to the State Property Office on or before the fifteenth day of the following month. Failure to properly record additions to inventory records in a timely manner could result in the misstatement of inventory and hinder the State Property Office in its oversight responsibility of identifying and protecting state inventory and property.

Recommendation:

We recommend the Mississippi Department of Archives and History comply with state law by ensuring additions to property are reported timely to the State Property Office.

The Bank Account Authorization Form Should Be Updated

Finding:

During testwork at the Mississippi Department of Archives and History, we noted the bank balance for the "Gift Fund" bank account was in excess of the \$500 maximum indicated on the Department of Finance and Administration authorization form. Throughout fiscal year 2003, the account balance was \$140,000 to \$180,000. We also noted the bank account was earning interest which is contrary to the authorization form. Section 29.60.35 of the Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual documents the process by which a bank account's minimum and maximum balances are authorized. It further explains any changes made in an approved bank account must be re-approved by the State Treasurer and the Department of Finance and Administration. Failure to properly update the authorization form could hinder the oversight provided by the State Treasurer and the Department of Finance and Administration of accounts outside the state treasury.

Recommendation:

We recommend the Mississippi Department of Archives and History update the bank account authorization form with the State Treasurer and the Department of Finance and Administration.