



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

July 20, 2005

Limited Internal Control and Compliance Review Management Report

James Watson, D.V.M., State Veterinarian
Mississippi Board of Animal Health
Post Office Box 3889
Jackson, Mississippi 39207

Dear Dr. Watson:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi Board of Animal Health for the Fiscal Year 2004. In these findings, the Auditor's Office recommends the Mississippi Board of Animal Health:

1. Strengthen controls over cash receipts and disbursements;
2. Support contractual services with written agreements;
3. Strengthen controls over procurement card purchases;
4. Strengthen controls over asset management;
5. Develop a written policy for the earning and use of compensatory leave;
6. Prepare and approve purchase orders prior to the ordering of goods and services;
7. Ensure employee travel complies with state law; and
8. Document the receipt of goods and services.

Please review the recommendations and submit a plan to implement them by August 31, 2005. 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. However, this report is a matter of public record and its distribution is not limited.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Phil Bryant", is written over a faint, larger version of the same signature.

Phil Bryant
State Auditor

Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi Board of Animal Health for the year ended June 30, 2004. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Marilyn Purvis and Terry Laughlin, CPA.

The fieldwork for review procedures and tests was completed on February 9, 2005. 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 Cash Receipts and Disbursements Should Be Strengthened

Finding:

Our review of internal controls at the Mississippi Board of Animal Health revealed the following weaknesses:

- One employee was responsible for recording receipts in agency records, verifying deposit and agency records agree, preparing the deposit to the state treasury, and signing the application for receipt warrants.
- One employee was responsible for authorizing purchases of goods and services, recording expenditures in agency records, verifying receipt of goods and services, signing payment vouchers, and mailing warrants.

Good internal controls require the process over cash receipts and disbursements be properly segregated. Failure to provide adequate controls could allow errors or fraud to occur and not be detected promptly.

Recommendation:

We recommend the Mississippi Board of Animal Health strengthen controls over cash receipts and disbursements by segregating duties so no one individual has complete authority over an entire financial transaction.

Contractual Services Should Be Supported By Written Agreements

Finding:

During our review of 30 contractual service payments at the Mississippi Board of Animal Health, we noted three instances in which payments totaling approximately \$9,294 were made to companies for services rendered without a written contractual agreement signed by both parties. Good internal controls require execution of a written contractual agreement binding the parties in costs and duties. Without a written contract executed and signed by both parties, duties and costs to the parties involved are not adequately documented and could result in costs being incurred or duties being performed that are not agreed upon.

Recommendation:

We recommend the Mississippi Board of Animal Health obtain written agreements signed by both parties to document services to be performed by individuals and/or companies. The contracts should document agreed upon costs as well as duties to be performed.

Controls over Procurement Card Purchases Should Be Strengthened

Finding:

During procurement card testwork at the Mississippi Board of Animal Health, we reviewed ten purchases and noted the following weaknesses:

- In one instance, a signed receipt or invoice was not on file at the agency to support the purchase;
- In three instances, the purchases were not adequately reviewed, resulting in \$46 in sales tax being paid by the agency;
- In four instances, purchases made by the agency's designated approving official were not independently reviewed; and
- In one instance, a \$388 purchase was made from a restaurant. Restaurant purchases are prohibited by Section 10.113.05 of the Procurement Manual established by the Office of Purchasing and Travel.

We also noted the agency did not have written policies and procedures for small procurement card purchases. Good internal controls dictate the purchaser sign and submit charge slips to document the individual making the purchase and evidence goods were received. Also, all procurement card purchases should be independently reviewed by an approved official. Office of Purchasing and Travel catalog no. 946-92 establishes guidelines for small procurement card services. These guidelines require each agency to develop written policies and procedures over procurement card purchases, consistent with State of Mississippi guidelines. Failure to consistently apply internal controls could allow errors or fraud to occur without being detected in a timely manner.

Recommendation:

We recommend the Mississippi Board of Animal Health strengthen internal controls over procurement card purchases by requiring personnel to confirm purchases by signing and submitting the charge slip or invoice, ensuring that written policies for procurement card purchases are developed and distributed to agency personnel, and ensuring all procurement card purchases comply with state purchasing laws.

Controls Over Asset Management Should Be Strengthened

Finding:

While reviewing internal controls over property and equipment at the Mississippi Board of Animal Health, we noted a lack of proper segregation of duties. The Director of Accounting and Finance performs all the following procedures: authorizes purchases of property and equipment, receives property and equipment upon delivery, records additions and deletions of property and equipment to inventory records, places identification tags on property and equipment, performs inventory counts, initiates paperwork for deletion of property and equipment, and records additions and deletions of property and equipment to the general ledger.

Good internal controls require the functions of processing, recording transactions and maintaining custody of related assets be segregated as much as possible in order to ensure the assets are safeguarded against loss from unauthorized use or theft. Failure to properly segregate these functions increases the possibility of errors occurring and the potential for theft of property.

Recommendation:

We recommend the Mississippi Board of Animal Health implement policies and procedures to ensure proper segregation of duties over asset management. This could be accomplished by allowing a person independent of the property records to record additions and deletions of property to the general ledger. This independent person should also verify property additions by performing a reconciliation between the general ledger and the property records. In addition, the independent person should also receive a copy of all authorized deletions directly from the salvage committee or board and verify agreement with deletions per property records.

A Written Policy on Compensatory Leave Should Be Developed

Finding:

Employees at the Mississippi Board of Animal Health were permitted to earn and use compensatory leave. Inquiries with agency personnel concerning the agency's policy governing compensatory leave revealed the agency had no formal policy in place over earning and using compensatory leave. Good internal controls dictate the agency develop, distribute and enforce a written policy over the earning and taking of compensatory leave. Failure to maintain a written policy could result in errors or irregularities in employee time reports and agency leave records.

Recommendation:

We recommend the Mississippi Board of Animal Health implement a formal compensatory leave policy which addresses both exempt and non-exempt employees and ensures compliance with the Fair Labor Standards Act. The policy should include, but not be limited to:

- Procedures for employees to inform their immediate supervisor regarding earning compensatory time, whether it be through prior approval or after the fact;
- A statement documenting the length of time an employee has to exhaust compensatory leave earned and informing employees any unused compensatory leave will be lost upon termination and will not be applied towards retirement; and
- A ceiling on the amount of compensatory leave which can be earned.

INSTANCES OF NONCOMPLIANCE WITH STATE LAWS

Purchase Orders Should Be Prepared and Approved Prior to the Ordering of Goods and Services

Finding:

During expenditure testwork at the Mississippi Board of Animal Health, we noted three instances out of 45 tested in which purchase orders were prepared after the invoice was received. Section 7-7-23, Miss. Code Ann. (1972), states that purchases of equipment, supplies, materials, or services of whatever kind or nature may be made only by written purchase orders duly signed by the official authorized to do so. It further states that 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 on the same day the said order is issued. Failure to comply impedes the board and the Department of Finance and Administration's ability to maintain budgetary controls over the board's expenditures.

Recommendation:

We recommend the Mississippi Board of Animal Health comply with state law by ensuring purchase orders are prepared and approved prior to goods and services being ordered.

State Travel Laws Should Be Complied With

Finding:

During travel expenditures testwork at the Mississippi Board of Animal Health, we noted two instances out of eight tested in which agency personnel were reimbursed for lodging expenses amounting to \$287 which were not supported by a hotel invoice. Section 25-1-81, Miss. Code Ann. (1972), requires all expenses for lodging be supported by receipted bills showing amount of payment thereof by the agency officer or employee. Failure to follow state travel laws could result in the reimbursement of unallowable travel expenses.

Recommendation:

We recommend the Mississippi Board of Animal Health ensure travel is reimbursed in compliance with state travel laws. We further recommend the agency ensure that amounts paid in error noted in this finding be reimbursed to the agency by agency personnel.

Receipt of Goods and Services Should Be Documented

Finding:

Commodity expenditures testwork at the Mississippi Board of Animal Health revealed three expenditures out of 15 tested in which the receipt of the goods was not documented by the signature and date of the person receiving the goods. Section 31-7-305, Miss. Code Ann. (1972), requires a record to be kept of the dates of receipt, inspection, and approval of goods and services. Failure to comply could result in payment of goods or services not yet received.

Recommendation:

We recommend the Mississippi Board of Animal Health strengthen procedures to ensure compliance with state law by requiring agency personnel receiving goods or services to sign and **date** invoices or other documentation to indicate proper receipt of the goods or services prior to the disbursement of funds.

End of Report