



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

May 23, 2014

Limited Internal Control and Compliance Review Management Report

Lisa Ivshin, Executive Director
Mississippi State Oil and Gas Board
500 Greymont Ave., Suite E
Jackson, Mississippi 39202

Dear Ms. Ivshin:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi State Oil and Gas Board for the period of July 1, 2012 through June 30, 2013. In these findings, the Auditor's Office recommends the Mississippi State Oil and Gas Board:

1. Strengthen controls over approval levels in the Statewide Automated Accounting System (SAAS);
2. Strengthen controls over cash receipts;
3. Ensure purchases are made in compliance with state laws;
4. Transfer receipts to the state treasury in accordance with state law; and
5. Ensure compliance with state travel rules and regulations.

Please review the recommendations and submit a plan to implement them by June 15, 2014. 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, individuals charged with governance and Members of the Legislature 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.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Patrick Dendy". The signature is fluid and cursive, with a large initial "P" and "D".

Patrick Dendy, CPA
Director, Department of Audit
Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi State Oil and Gas Board for the period of July 1, 2012 through June 30, 2013. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Sallie Dier, CPA, Lee Alford, and Jessie Crews.

Our 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 certain 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 **OTHER CONTROL DEFICIENCIES** and **INSTANCES OF NONCOMPLIANCE WITH STATE LAWS AND REGULATIONS**. A control deficiency 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.

OTHER CONTROL DEFICIENCIES

Controls over Employee Approval Levels in SAAS Should Be Strengthened

Finding:

The Mississippi Department of Finance and Administration, Office of Mississippi Management and Reporting System (MMRS) is responsible for maintaining and supporting the Statewide Automated Accounting System (SAAS). MMRS has published and made available on its website the *SAAS Agency Manual – MMRS/SAAS System Access*, which indicates “one user should not be given authority to perform all actions for one transaction.” Each agency is responsible for establishing the SAAS authority given to its employees.

During our review of the Mississippi State Oil and Gas Board, we reviewed transaction approval levels established in SAAS. We noted four employees had entry and full agency approval access for disbursement, revenue, and/or journal voucher transactions. In addition, two of these employees had authorization to sign payment vouchers.

Good internal controls require that duties be properly segregated to prevent both the initiation and authorization of a transaction by an individual. Failure to maintain adequate internal controls over SAAS approval levels could allow unauthorized or erroneous transactions to be recorded and not be detected promptly.

Recommendation:

We recommend the Mississippi State Oil and Gas Board strengthen controls over employee approval levels in the Statewide Automated Accounting System (SAAS) to ensure duties are properly segregated and no one individual is assigned both input capability and all levels of agency approval.

Controls over Cash Receipts Should Be Strengthened

Finding:

Testwork performed on 25 cash receipts at the Mississippi State Oil and Gas Board revealed one instance in which the amount of an annual fee submitted to the agency by an operator was incorrectly calculated by \$500 less than the required amount. Rule 4 of the agency's statewide rules and regulations requires any companies which receive a permit to drill to file proof of financial responsibility with the agency, which shall be calculated based on the depth of the well. In lieu of the financial responsibility instrument, an operator may satisfy the requirements by paying a nonrefundable annual fee equal to five percent of the amount of the financial responsibility instrument that otherwise would be required. The failure to ensure the annual fees are calculated properly could result in the improper collection of revenue by the agency.

Recommendation:

We recommend the Mississippi State Oil and Gas Board strengthen controls over cash receipts by ensuring revenues received are in compliance with agency rules and regulations.

INSTANCES OF NONCOMPLIANCE WITH STATE LAWS AND REGULATIONS

Purchases Should Be Made in Compliance with State Laws

Finding:

Testwork performed on 25 contractual services expenditures at the Mississippi State Oil and Gas Board revealed two instances in which the purchase order date was subsequent to the date the goods and/or services were provided and four instances in which the approved copy of the purchase order was not maintained on file by the agency.

Section 7-7-23, Miss. Code Ann. (1972), requires that all 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. Purchases of such equipment, supplies, materials, or services, as specified herein, made without the issuance of such purchase orders shall not be deemed to be obligations of the state unless the State Fiscal Officer, by general rule or special order, permits certain purchases to be made without same. In addition, good internal controls require the agency maintain accounting records for review purposes.

Failure to complete a purchase order prior to ordering goods and services could impede the ability of the agency and the Department of Finance and Administration to maintain budgetary controls over the agency's expenditures. Also, the failure to maintain accounting records hinders the performance of a review.

Recommendation:

We recommend the Mississippi State Oil and Gas Board comply with state law by ensuring purchase orders are prepared and approved prior to goods and services being ordered. In instances in which an exact price is not known at the time of ordering, agency personnel should prepare a purchase order using

an estimated amount. Upon receipt of the invoice, the purchase order may then be revised to agree with the invoiced amount. Copies of all approved accounting records should be maintained on file.

Transfer of Receipts to the State Treasury Should Be Performed in Accordance with State Law

Finding:

Testwork performed on 25 receipts at the Mississippi State Oil and Gas Board revealed four instances in which receipts were not transferred to the state treasury timely. The transfers to the treasury were not made until three to four working days after deposit to the clearing account. Section 7-9-21, Miss. Code Ann. (1972), requires agencies to deposit funds into the state treasury by the end of the next business day following the day of collection. Failure to make timely transfers to the state treasury may result in the loss of investment earnings and increases the risk of theft and/or misplacement of funds while held at the agency level.

Recommendation:

We recommend the Mississippi State Oil and Gas Board establish procedures to ensure receipts are transferred to the state treasury in compliance with state law.

State Travel Policy Rules and Regulations Should Be Followed

Finding:

The Department of Finance and Administration "*State Travel Policy Rules and Regulations*" establish the rules and regulations for travel expenses which are required to be followed by state officers and employees as stated in Section 25-3-41, Miss. Code Ann. (1972). Testwork performed on 10 travel vouchers at the Mississippi State Oil and Gas Board revealed the following problems.

- Four instances were noted in which meals that were included in the conference convention, association, or meeting registration fee totaling \$112 were claimed as a separate item of expense on the travel voucher. Section 5, Part 123 of the "*State Travel Policy Rules and Regulations*" states that meals shall not be claimed as a separate item of expense on the travel voucher when included in the conference registration fee.
- One instance was noted in which a board member was reimbursed \$296 for an additional day of travel two days prior to a convention which did not appear to be for legitimate agency business. Section 2, Part 103 of the "*State Travel Policy Rules and Regulations*" states that travel for business should be conducted at a minimum cost for achieving the success of the mission.
- One instance was noted in which a board member was reimbursed for three nights of lodging that exceeded the conventions group rate by a total of \$239 without the required waiver. Section 5, Part 122 of the "*State Travel Policy Rules and Regulations*" states that when hotel rooms are blocked for a conference, seminar, etc. and a special discounted hotel rate is provided, that a waiver is required for any lodging reimbursement greater than the conference rate.

Failure to comply with the "*State Travel Policy Rules and Regulations*" established by the Department of Finance and Administration, as required by Section 25-3-41, Miss. Code Ann. (1972) results in improper travel reimbursement being paid by the agency.

Recommendation:

We recommend the Mississippi State Oil and Gas Board implement procedures to ensure reimbursement for travel expenses is in accordance with the Department of Finance and Administration "*State Travel Policy Rules and Regulations*." We further recommend the Board ensure that unallowed travel reimbursements are repaid to the State.