



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

September 16, 2016

Limited Internal Control and Compliance Review Management Report

Albert Santa Cruz, DPS, Commissioner
Mississippi Department of Public Safety
P.O. Box 958
Jackson, Mississippi 39205

Dear Commissioner Santa Cruz:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi Department of Public Safety for the Fiscal Year 2015. In these findings, the Auditor's Office recommends the Mississippi Department of Public Safety:

1. Strengthen internal controls within the agency;
2. Strengthen internal controls over bank accounts and cash receipts;
3. Strengthen internal controls over fringe benefits;
4. Ensure purchases are properly documented and paid; and
5. Obtain surety bonds in accordance with state laws.

Please review the recommendations and submit a plan to implement them by September 30, 2016. 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.

I hope you find our recommendations enable the Mississippi Department of Public Safety to carry out its mission more efficiently. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie Palmertree".

STEPHANIE PALMERTREE, CPA, CGMA
Director, Financial and Compliance Audit
Office of the State Auditor

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi Department of Public Safety for the year ended June 30, 2015. The Office of the State Auditor's staff members participating in this engagement included Kevin Cribbs, John T. Newell, Justin Reulet, David Hodges, Dana McMorris, and Carrie Middleton.

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.

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 *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. 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 identified certain deficiencies in internal control over financial reporting that we consider to be a *material weakness* in internal control and certain deficiencies in internal control that we consider to be *significant deficiencies* in internal control. These matters are noted under the headings **MATERIAL WEAKNESS** and **SIGNIFICANT DEFICIENCIES**.

In addition, while performing our review, we noted certain instances of noncompliance with State laws that require the attention of management. These matters are noted under the heading **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**.

MATERIAL WEAKNESS

Finding: Agency Should Strengthen Internal Controls Throughout All Divisions.

Executive Summary: Personnel are neither knowledgeable nor concerned with operating with appropriate internal controls, policies or procedures. Management personnel are responsible for maintaining and enforcing these rules. Lack of controls and appropriate "tone at the top" leadership can lead to fraud, waste and abuse.

Recommendation: We recommend the Department of Public Safety implement new controls, policies and procedures where necessary. We further recommend that management receive sufficient training. We wish to place emphasis on the importance of appropriate "tone at the top" leadership in the financial division.

Detailed Analysis: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is the most broadly accepted standards for internal control in the U.S. One of the components of COSO's internal control structure is control environment. In order for an agency to have adequate internal controls, the agency must have a sufficient control environment. Additionally, The Mississippi Agency Accounting Policies and Procedures (MAAPP) manual section 30 has set forth guidelines for adequate implementation, documentation and evaluation of an agency's internal controls. The MAAPP manual specifically states part of the agency

management's responsibilities is to "support the agency's internal control philosophy, promote compliance, and maintain control within their areas of responsibility."

While performing a compliance audit for the Department of Public Safety, the Office of the State Auditor noted several areas where internal controls over specific processes and transactions were either ineffective or nonexistent. Through performing walk-throughs of internal controls, interviews with agency staff, and transaction specific testwork, we determined the agency personnel were aware of the agency's internal control policies; however, the internal control policies were neither being followed nor were agency personnel being held accountable by management for not following the policies. Additionally, agency personnel did not appear to have adequate training or knowledge of their required job duties. The overall atmosphere of the agency was one of unconcern regarding internal control policies and procedures. The overall control environment for the Department of Public Safety is the responsibility of management. This includes the establishment, evaluation, and on-going monitoring of the agency's controls over the accounting functions. One of the key factors to an effective control environment is management's respect for and adherence to the agency's internal controls. Lack of an adequate control environment can lead to significant waste, fraud and abuse.

SIGNIFICANT DEFICIENCIES

Finding: Agency Should Strengthen Internal Controls Over Bank Accounts and Cash Receipts to Ensure Compliance with State Law

Executive Summary: In order to ensure that State assets (i.e. cash) are effectively and efficiently managed, timely and adequate supervision and control of those assets must be implemented. We found that bank reconciliations, deposits, and adequate record keeping were not being performed, or not being performed timely. Lack of controls can lead to misappropriated assets, fraud, waste and abuse.

Recommendation: We recommend the Mississippi Department of Public Safety implement controls, policies and procedures over cash to ensure compliance with laws over their bank accounts and assets. Stringent record keeping should be implemented to ensure that cash is not misappropriated or misplaced.

Additionally, account balances should be maintained as authorized by Department of Finance and Administration (DFA) and the Office of the State Treasurer (Treasury), and transfers to the State Treasury should be made timely in accordance with State law.

Detailed Analysis: During our review of internal controls over bank accounts and cash receipts at the Mississippi Department Public Safety (MDPS), we noted the following problems:

- Seven (7) accounts in which deposits were not made to the State Treasurer timely.
- One instance in which a check was written out of sequence. The check was to the State Treasury and the check could not be located in subsequent bank statements. No attempt by the Agency was made to reconcile the matter or explain why the check was not sequential.
- Bank reconciliations for one Trustmark National Bank account did not appear to

have been completed before requested by the auditor. Additionally, the bank reconciliations that were prepared were performed incorrectly, and did not accurately reflect the Agency's accounting records.

- One instance out of 25 cash receipts examined where the cash receipt log did not agree with the amount deposited. Agency personnel were initially unable to explain the discrepancy, but provided verification that checks were deposited separately.
- Three instances out of 25 where the checks listed on the cash log were not timely deposited. Agency personnel verified when the checks were sent to Treasury; however, there was not a reasonable explanation as to why the checks were held for, on average, 9 days.
- Twenty-one instances out of 25 cash receipts examined where the deposit to the Agency bank account was not done in a timely matter.
- One instance out of 25 cash receipts examined where two original checks were inadvertently included with supporting documentation. These checks had never been accounted for or deposited into the Agency's accounts.
- One instance out of 25 where the supporting documentation for the testwork sample item could not be located by Agency personnel and therefore could not be independently verified by the auditor.

The purpose of bank reconciliations is to provide verification of the accuracy of accounting records. Untimely reconciliations cannot provide reasonable assurance as to the accuracy of the cash balance at a specific point in time. Accurate and timely bank reconciliations are a cornerstone of adequate internal control structure within an organization. Untimely reconciliations can lead to check frauds such as forgery, counterfeiting, alteration and check kiting. Additionally, errors could be made by bank personnel and would not be identified by the Agency without timely reconciliations.

Good internal controls also dictate that all transactions and other significant events be clearly documented and readily available for examination. This audit trail documentation should include evidence on how transactions are initiated, processed, recorded and summarized. Failure to maintain appropriate audit trail supporting documentation can lead to fictitious transactions and misappropriated assets.

Additionally, Section 7-9-21, Miss. Code Ann. (1972) requires agencies to transfer monies deposited in agency clearing bank accounts to the State Treasury within two days and requires public funds to be deposited into the state treasury by the end of the next business day following the day that funds are collected. Good internal controls require cash receipts to be deposited into the agency's bank account on the day of receipt to reduce the likelihood of loss or theft. Failure to deposit receipts daily could result in the loss of receipts and interest revenue by the state and increases the risk of theft and/or misplacement of funds and noncompliance with State law.

Finding: Agency Should Strengthen Internal Controls Over Fringe Benefits Received to Ensure Compliance with State Law

Executive Summary: In order to ensure compliance with State law and Internal Revenue Service (IRS) regulations, the Department of Public Safety needs to implement comprehensive

policies and procedures over the usage of state owned vehicles. No internal controls or policies were evident when auditors inquired of management regarding the usage of state owned vehicles.

Recommendation: We recommend the Mississippi Department of Public Safety implement controls, policies and procedures over state owned vehicles to ensure compliance with State laws and IRS regulations. Stringent record keeping should be implemented to ensure reporting of fringe benefits is accurate.

Detailed Analysis: During the fiscal year 2015, the Mississippi Department of Public Safety did not adequately track the usage of employees with state owned vehicles for commuting to and from home. When Car Trips Reports were requested by auditors in order to verify compliance with IRS regulations contained in Publication, "Commuting Rule", auditors were informed that employees rarely, if ever, completed these reports or submitted them to the Agency. IRS regulations state that if an employee is provided the use of vehicle for commuting purposes, that \$1.50 for each one way commute (i.e. from home to work or from work to home) be included in the employee's wages as a fringe benefit.

It was determined by auditors that, of the 55 employees authorized usage of state owned vehicles for commute, that none had submitted the Car Trips Reports as required by MAAPP manual section 15.20.30.

Additionally, when auditors requested a list of employees authorized usage of state vehicles and policies governing the usage of those vehicles, the only policies provided governed the maintenance of the cars.

Good internal controls dictate that the Agency implement adequate policies and procedures to govern and ensure the compliance with the following items:

- Positions or job descriptions that require usage of State owned vehicles;
- Supporting logs of when State owned vehicles are used for commuting purposes;
- Signed statements ensuring understanding and agreement with such policies by personnel;
- Restrictions of vehicles for personal use.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding: Agency Should Ensure Purchases are Properly Documented and Paid in a Timely Manner

Executive Summary: Multiple instances were noted in which authorization and/or supporting documentation was not properly recorded. State law dictates that timely and proper authorization be present in order to avoid duplicate and fictitious payments.

Recommendation: We recommend the Mississippi Department of Public Safety ensure compliance with state laws over purchase transactions and records by properly documenting and authorizing all purchases. Additionally, purchase orders should be issued and approved prior to the receipt of goods and services and payments should be made within 30 days of receipt of invoice and goods or services.

Detailed Analysis: During our review of commodity and contractual service purchases at the Mississippi Department of Public Safety (MDPS), we noted the following problems:

- Four instances out of 15 in which payment for items was not made within the required time limit of 20 days.
- One instance out of 15 in which there was not appropriate authorization recorded in MAGIC. MAAPP 11.10.19 requires a signature by an authorized person for all payment vouchers.
- One instance out of 15 in which proper documentation of verification of goods was not properly recorded. Three instance out of 20 in which purchase orders were dated subsequent to the date good and services were received, thereby, circumventing the appropriate approval process.
- Nine instances out of 20 in which payments for contractual services were not made within 30 days of receipt of invoice and good or services as required by state law.

Section 31-7-303, Miss Code Ann. (1972) requires that the requisition for payment of an invoice submitted to a public body and required by law to be filed with the State Fiscal Management Board shall be filed with the State Fiscal Management Board not later than thirty (30) days after receipt of the invoice and receipt, inspection, and approval of the goods of services.

Section 31-7-305, Miss Code Ann. (1972) also requires that all public bodies of the state, including those which issue checks and those which file requisitions for payment with the State Fiscal Management Board, shall keep a record of the date of the receipt of the invoice, dates of receipt, inspection, and approval of the goods or services.

Finding: Agency Should Obtain Surety Bond Coverage in Accordance with State Law

Executive Summary: During fiscal year 2015, the Mississippi Department of Public Safety did not have adequate surety bond coverage. This coverage included the Colonel of the MHP. The agency had not obtained new coverages as of the completion of testwork.

Recommendation: We recommend the Mississippi Department of Public Safety obtain adequate surety bond coverage for all employees with significant financial responsibilities and custody of records. Additionally, we recommend that the Agency obtain surety bond coverage for the Colonel of the Mississippi Highway Patrol.

Detailed Analysis: Good internal controls require administrative and accounting personnel, especially those with access to cash and those involved in the authorizing or processing of transactions or custody of records or assets be covered by a surety bond. Failure to maintain surety bond coverage for the employees of the Mississippi Department of Public Safety could result in unrecoverable losses for the State of Mississippi due to errors or fraud.



STATE OF MISSISSIPPI
PHIL BRYANT, GOVERNOR
DEPARTMENT OF PUBLIC SAFETY
MISSISSIPPI HIGHWAY SAFETY PATROL
ALBERT SANTA CRUZ, COMMISSIONER

August 20, 2016

Honorable Stacey E. Pickering, State Auditor
Office of State Auditor
State of Mississippi
Jackson, MS 39205-0956

Dear Mr. Pickering:

We have reviewed the audit findings below in reference to the Mississippi Department of Public Safety 2015 fiscal year audit. Listed below is our response and plan for corrective action.

Audit Finding: Strengthen internal controls within the agency
2015-001

Response: The agency concurs with this finding.

Corrective Action: The Mississippi Department of Public Safety is implementing additional internal controls, revising current policies and procedures as well as implementing additional policies and procedures. Specific training is being held to eliminate areas of concern. The Agency is also making personnel changes to accomplish these objectives.

Audit Finding: Strengthen internal controls over bank accounts and cash receipts
2015-002

Response: The agency concurs with this finding.

Corrective Action: The Mississippi Department of Public Safety is strengthening existing internal controls to assure accountability of work products. DPS is currently reviewing all internal control policies to identify weaknesses or areas where policies are needed per MAAP.

Audit Finding: Strengthen internal controls over fringe benefits
2015-003

Response: The agency concurs with this finding.

Corrective Action: To gain compliance with state law and Internal Revenue regulations the Mississippi Department of Public Safety has issued a general order, conducted employee training and issued necessary forms for proper reporting of fringe benefits.

Audit Finding: Ensure purchases are properly documented and paid
2015-004

Response: The agency concurs with this finding.

Corrective Action: The Mississippi Department of Public Safety is conducting training sessions for employees responsible for agency procurements and purchases. Training is targeted towards deficiencies that were identified. This will ensure state law and applicable state policies are being followed.

Audit Finding: Obtain surety bonds in accordance with state laws
2015-005

Response: The agency concurs with this finding.

Corrective Action: The Mississippi Department of Public Safety has obtained the surety bond and is now in compliance with state law.

Should you have any questions regarding our responses or corrective action plans, please feel free to contact Lieutenant Colonel Kevin Myers at (601) 987-1386.

Sincerely,



Albert Santa Cruz
Commissioner
Mississippi Department of Public Safety