



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

November 7, 2008

Limited Internal Control and Compliance Review Management Report

Adrian Grice, Executive Director
Mississippi State Veterans Affairs Board
P. O. Box 5947
Pearl, Mississippi 39288-5947

Dear Mr. Grice:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi State Veterans Affairs Board for the Fiscal Year 2007. In these findings, the Auditor's Office recommends the Mississippi State Veterans Affairs Board:

1. Strengthen controls over bank accounts;
2. Strengthen controls over procurement card purchases;
3. Establish proper segregation of duties over expenditures;
4. Properly prepare daily cash reconciliation reports for resident's funds;
5. Strengthen internal controls over resident's personal accounts;
6. Strengthen controls over resident's personal property;
7. Strengthen controls over property and equipment at the administrative office;
8. Properly segregate duties over bank accounts;
9. Strengthen controls to ensure contractual services expenditures are paid in accordance with contract terms;
10. Strengthen controls to ensure proper employee insurance premium payments are properly calculated and charged;
11. Strengthen controls to ensure Collateral Sufficiency Analysis Reports are reconciled to agency records;
12. Strengthen controls over drug inventory at the Kosciusko State Veterans Home;
13. Prepare and approve purchase orders prior to the ordering of goods and services;
14. Deposit interest earned on clearing accounts into the state general fund;
15. Ensure the use of major medical leave is in accordance with state law;
16. Ensure vendors are paid in accordance with state purchasing laws; and
17. Document receipt of goods and services.

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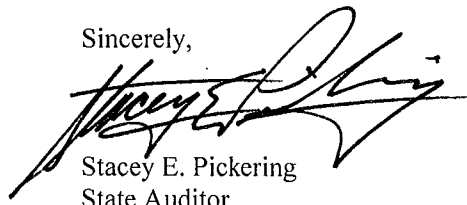
Please review the recommendations and submit a plan to implement them by December 12, 2008. The enclosed findings contain more information about our recommendations.

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 State Veterans Affairs Board to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi State Veterans Affairs Board 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 "Stacey E. Pickering", written over a horizontal line.

Stacey E. Pickering
State Auditor

Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi State Veterans Affairs Board for the year ended June 30, 2007. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Kayla McKnight, Tangela Beddingfield, Tyler Berch, Paula Murriel, Manny Patel and Lisa Worthy.

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 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 misstatements on a timely basis. In performing our review, we noted matters involving the internal control over financial reporting and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. These matters are noted under the heading **SIGNIFICANT DEFICIENCIES**.

In addition, we noted other 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**.

SIGNIFICANT DEFICIENCIES

Controls over Bank Accounts Should Be Strengthened

Finding:

The administrative office of the Mississippi State Veterans Affairs Board maintains a donation bank account and a clearing fund bank account. For each of the state veterans homes, the administrative office also maintains the petty cash accounts for the homes and the bank accounts for the personal funds of the homes' residents. A subaccount ledger is maintained to record and account for the funds on deposit for each resident. Testwork performed on bank accounts for fiscal year 2007 revealed the following problems.

- For the donation account, the clearing fund account and each of the petty cash accounts utilized by the Collins, Jackson, Kosciusko and Oxford State Veterans Homes, the monthly bank reconciliations were not accurately performed. The agency compared the deposits and withdrawals recorded on the bank statement to agency records and listed the outstanding withdrawals on the reconciliation form provided in the bank statement; however, the agency did not maintain a cash balance in the agency records. Therefore, it was not possible to verify the balances of the bank accounts and agency records agreed after consideration of reconciling items. In addition, the preparation and review of the monthly bank reconciliations were not documented by the preparer's and reviewer's initials and date.

- For the residents' personal funds bank accounts utilized by the Collins, Jackson, Kosciusko and Oxford State Veterans Homes, we noted the agency did not maintain a cash balance of the bank account activity. The subaccount ledgers did not agree to the balances per the bank account, even after consideration of reconciling items.
- For the residents' personal funds account utilized by the Jackson State Veterans Home, we noted checks written to cash or agency personnel totaling \$9,200 for which no supporting documentation was on file at the agency; therefore we could not determine if the expenditures were appropriate.
- For the donations, the clearing and the residents' personal funds bank account utilized by the Collins, Jackson, Kosciusko and Oxford State Veterans Homes, we noted reconciling items were listed for several months on the reconciliations without appropriate follow-up by agency personnel.
- For the petty cash accounts utilized by the Collins, Jackson, Kosciusko and Oxford State Veterans Homes, the agency did not comply with the maximum allowed balance of \$500 in each account, as approved by the Department of Finance and Administration (DFA) and the State Treasury Department. The petty cash accounts maintained balances that ranged between \$529 and \$2,342 during fiscal year 2007.
- For the clearing account, the donations, and the residents' personal funds bank account utilized by the Collins, Jackson, Kosciusko and Oxford State Veterans Homes, checks written were required to have two authorized signatures as approved by the Department of Finance and Administration (DFA) and the State Treasury Department. However, we noted there was only one signature on nine checks written on the clearing account. These nine checks totaled \$178,415 and included eight checks written for resident care expenses and one check written for a Medicare Part B co-pay.
- For the petty cash account utilized by the Jackson State Veterans Home, petty cash funds totaling \$391 were improperly remitted to an employee for payroll purposes.

Good internal controls require that accurate cash balances for bank accounts be maintained on the agency's accounting records. Monthly reconciliations should be prepared comparing activity and cash balances recorded on the bank statements to agency records, including subaccount ledgers. Reconciling items should be subjected to follow-up procedures in a timely manner. In addition, the preparation and review of the reconciliation should be properly documented by the initial and date of the preparer and the reviewer. Good internal controls also require supporting documentation be maintained for all bank account transactions and that all checks issued by the agency be signed by appropriate agency personnel. The agency should comply with the maximum allowed bank account balances requirement as approved by DFA and the State Treasury Department. In addition, funds set aside for petty cash should not be used for payments to employees for wages. These payroll transactions should be processed through the Statewide Payroll and Human Resource System (SPAHRs).

The failure to properly maintain and reconcile agency records with the bank statements, to properly authorize checks and to maintain supporting documentation for checks written could result in errors or fraud occurring without being detected in timely manner. The use of petty cash funds for payroll expenditures and maintaining larger account balances than approved by DFA and the State Treasury Department could result in the misuse of funds. Also, failure to provide appropriate supporting documentation for checks totaling \$9,200 written to cash or agency personnel precludes the auditors from determining if these payments were for legitimate agency or resident expenses.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board strengthen internal controls over bank accounts by performing the following procedures.

- The agency should ensure accurate records are maintained to account for bank account transactions of the agency, which includes maintaining independent cash balances for bank accounts in the agency records.
- The agency should maintain proper supporting documentation for all checks written. In addition, the agency should perform appropriate follow-up procedures on checks written to cash or agency personnel for which there was no supporting documentation.
- The agency should ensure monthly reconciliations are prepared comparing the bank statements to agency records and residents' subaccounts ledgers. Reconciling items should be noted and any unknown differences should be promptly investigated and resolved. In addition, monthly bank statement reconciliations should be reviewed by supervisory personnel. The preparer and reviewer of the reconciliation should document the preparation and review with an initial and date.
- The agency should comply with the maximum allowed account balance requirements as approved by the Department of Finance and Administration and the State Treasury Department.
- The agency should ensure all checks issued by the agency are signed by appropriate agency personnel as approved by the Department of Finance and Administration and the State Treasury Department.
- The agency should discontinue the use of the petty cash account to pay employee payroll expenditures and make any necessary adjustments to the State Payroll and Human Resource System (SPAHRs).

Controls over Procurement Card Purchases Should Be Strengthened

Finding:

Testwork performed at the Mississippi State Veterans Affairs Board on 40 purchases made under the Small Purchase Procurement Card program which totaled \$13,164, revealed the following problems.

- In 22 instances, or 55 percent, which totaled \$7,232, there were no receipts of goods or services on file at the agency to support charges made as recorded on the monthly procurement credit card statements. All receipts and supporting documentation should have been submitted to the agency liaison officer for review of reasonableness of expenditure and agreement to the monthly statement. In one of the instances, the vendor name and the amount paid in the amount of \$249 were handwritten on a piece of paper.

- In five instances which totaled \$1,074, there was no signature on the charge slips to determine if the purchases were made by an authorized user.
- In one instance which totaled \$293, the charge slip was signed by someone other than the approved cardholder.
- In two instances which totaled \$22, the charge slips were not adequately reviewed which resulted in the agency paying sales tax on the purchases.
- For all 40 items tested, no evidence of review by the agency liaison officer was maintained to document reconciling the monthly statements to supporting receipts of goods or services prior to authorizing the statement for payment;

Section 10.113 of the *State of Mississippi Procurement Manual* states that state agencies may make purchases under the Small Purchase Procurement Card program established by the Office of Purchasing and Travel provided, however, that all such purchases be made in compliance with the minimum policies and procedures established by the Office of Purchasing and Travel. It further states that the Director of the Office of Purchasing and Travel has the authority to limit the ability of any agency to use the Small Purchase Procurement Card program if it is determined that the agency is not in compliance with the policies and procedures.

Under policies adopted by the Office of Purchasing and Travel, an agency is required to have operating procedures and designate personnel to manage the program, comply with state purchasing requirements and adopt their own individual expenditure limits and purchase restrictions. The agency is also required to designate approving officials who will be responsible for review and verification of cardholder statements. Upon receipt of the monthly statement, the agency liaison officer is required to reconcile the statements to receipts in order to verify that all purchases are bona fide expenditures of the agency. It is required that the agency maintain a file with the statements and all applicable receipts and disputed documents.

Failure to comply with minimum requirements of the state procurement manual governing the Small Purchase Procurement Card program could allow improper payments to be made or purchases to be made by unauthorized personnel. Also, failure to comply with the state procurement manual could jeopardize the agency's participation in the Small Purchase Procurement Card program.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board strengthen internal controls over procurement card purchases by requiring the agency liaison officer to reconcile the monthly procurement credit card statements to supporting receipts of goods or services. This review should be adequately documented with the reviewer's initials and date. We further recommend the agency require personnel to confirm purchases by signing and submitting the charge slip or invoice and ensuring all procurement card purchases comply with state purchasing laws. In addition, we recommend the agency perform appropriate follow-up procedures on the instances in which there were no receipts of goods or services on file at the agency.

Proper Segregation of Duties over Expenditures Should Be Established

Finding:

During our review of commodities and contractual services expenditures at the Mississippi State Veterans Affairs Board, we noted 11 instances totaling \$115,365 out of 50 items tested in which the payment voucher and purchase order were authorized by the same person. It should be noted this person had all agency approval levels required to process purchase orders and payment vouchers from initiation to approval in the Statewide Automated Accounting System (SAAS). Good internal controls require duties to be properly segregated to prevent both the initiation and authorization of a transaction by a single individual. Failure to adequately segregate duties over expenditures increases the potential for errors or fraud to occur without being detected in a timely manner.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board review assigned approval levels over payment vouchers and purchase orders to ensure that no individual has the capacity to both initiate and approve agency purchases.

Daily Cash Reconciliation Reports for Resident's Funds Should Be Properly Prepared

Finding:

The Mississippi State Veterans Affairs Board is allowed, if properly authorized, to manage the personal funds accounts of the residents at the four state veterans homes. The business office at the state veterans homes is responsible for, but not limited to, maintaining a cash drawer of the personal funds, disbursing funds from the cash drawer as properly requested, and performing daily cash reconciliations, which should be compared to the cash in the drawer each day. The daily cash reconciliation report accounts for the beginning cash balance, withdrawals, deposits and the ending cash balance each day and is required to be reviewed by supervisory personnel. A copy of each of the daily cash reconciliation reports is sent to the administrative office by the tenth of the following month for each home.

During our review of 176 days of supporting daily cash reconciliation reports in which checks were written to cash or agency personnel on the residents' personal funds account at the four state veterans homes (61 days tested at the Jackson State Veterans Home, 61 days tested at the Kosciusko State Veterans Home, 34 days tested at the Collins State Veterans Home and 20 days tested at the Oxford State Veterans Home), we noted the following problems.

- For all four state veterans homes, we noted the daily cash reconciliation reports were not properly prepared. The form did not account for all cash withdrawn by agency personnel for purchases to be made by residents; it only recorded the actual expenditures made by the residents. The money not used by the residents, which should have been returned to the cash drawer by agency personnel, was not recorded as a refund or deposit on the report. Therefore, we could not determine the ending balance on the daily cash reconciliation reports had actually been verified to the cash drawer balance at the end of the day and whether any differences noted were properly investigated and documented.
- For the Collins State Veterans Home, the daily cash reconciliation report was not completed on days when there were no withdrawal and/or deposit transactions. Therefore there was no verification of the cash on hand for those days.

- For the Jackson State Veterans Home, there was no evidence of supervisory review for seven daily cash reconciliation reports. Also, the daily cash reconciliation report dated April 5, 2007, could not be located.

Good internal controls require a person independent of disbursing the cash to the residents count the cash in the drawer and compare the cash to the daily cash reconciliation report and account for any differences noted. Also, the daily cash reconciliation report should be completed on a daily basis, properly maintained and reviewed by supervisory personnel. Failure to compare the cash in the drawer to the daily cash reconciliation report and to properly prepare the daily cash reconciliation reports each day could result in errors or fraud occurring without being detected in a timely manner.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board strengthen internal controls over the residents' personal funds account by properly preparing the daily cash reconciliation reports to include all cash transactions. The cash in the drawer should be counted at the end of the day and compared to the ending balance on the daily cash reconciliation report. Any differences should be investigated and properly documented. In addition, we recommend the daily cash reconciliation reports be properly maintained and reviewed by supervisory personnel.

Internal Controls over Residents' Accounts Should Be Strengthened

Finding:

The Mississippi State Veterans Affairs Board may be given the responsibility of holding and disbursing the personal funds of a resident, in accordance with established policies and procedures, by the resident or the resident's responsible party if the proper authorization form is signed. On an attachment to the authorization form, the resident or the resident's responsible party indicates the type of transactions the agency will be allowed to manage for the resident. The type of transactions noted on the attachment includes, but is not limited to, allowing the agency to deposit monthly checks into the resident's account, deducting funds from the account to pay for the resident's monthly care expenses and withdrawing money from the account to purchase items for the resident's personal needs. Agency policies and procedures require that all funds withdrawn by individuals other than the resident and amounts exceeding \$100 to be documented by the resident and two witnesses signing the release of funds form. In addition, the agency procedures require a copy of the resident's monthly financial statements be provided to the resident or responsible party on a monthly basis.

Testwork performed on a total of 90 personal fund withdrawals made from the residents' accounts (40 at the Jackson State Veterans Home and 25 each at the Collins State Veterans Home and Kosciusko State Veterans Homes) revealed the following problems.

- In 22 instances totaling \$12,419, a release of funds form was not completed documenting withdrawal of residents' funds in excess of \$100. Of the 22 instances, 11 instances totaling \$2,652 related to the Kosciusko State Veterans Home, seven instances totaling \$7,367 related to the Jackson State Veterans Home and four instances totaling \$2,400 related to the Collins State Veterans Home.
- In one instance totaling \$45 at the Collins State Veteran Home, the agency did not maintain supporting documentation for the withdrawal. We were unable to determine if the withdrawal made from the resident's account was legitimate and made by an authorized person.

- The resident's monthly financial statements at the Collins State Veterans Home were being provided to the resident or responsible party on a quarterly basis or at the resident's request based on discussion with agency personnel instead of on a monthly basis.

Good internal controls require proper supporting documentation be maintained to ensure that withdrawals are made for a legitimate expense for the resident and that monthly financial statements be provided to the resident in a timely manner. Failure to adequately document withdrawal transactions, maintain residents' and two witnesses' signatures for all withdrawals in excess of \$100 from the residents' personal funds account and provide residents with monthly financial statements increases the potential for errors or fraud to occur without being detected in a timely manner.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board strengthen internal controls over residents' accounts by ensuring withdrawals are properly documented and authorized. A copy of the residents' monthly financial statement should be provided to the resident or responsible party on a monthly basis. We further recommend the agency perform appropriate follow-up procedures on those instances in which a release of funds form was not completed documenting withdrawals of residents' funds in excess of \$100 and any instance in which there was no supporting documentation on file for the withdrawal.

Controls over Resident's Personal Property Should Be Strengthened

Finding:

The Mississippi State Veterans Affairs Board is responsible for establishing and maintaining records of personal property and possessions owned by residents of the state veterans homes operated by the agency. The personal property and possession records are to be prepared by agency personnel at the time of admission and a documented supervisory review is to be performed. Agency policy also requires that personal property acquired by residents while living at one of the homes be recorded on the "Inventory of Personal Effects" form. Our review at the Collins, Jackson and Kosciusko State Veterans Homes revealed inadequate procedures for recording personal property when residents were admitted and for updating records when personal property was acquired. Testwork on a total of 46 residents' "Inventory of Personal Effects" forms (22 at the Jackson State Veterans Home, 13 at the Collins State Veterans Home and 11 at the Kosciusko State Veterans Home) revealed the following problems.

- In 38 instances, the "Inventory of Personal Effects" form was not signed by the resident or the responsible party. There were 15 instances which related to the Jackson State Veterans Home, 13 instances which related to the Collins State Veterans Home and ten instances which related to the Kosciusko State Veterans Home.
- In 23 instances, the "Inventory of Personal Effects" form was not signed by agency personnel who admitted the resident. There were 13 instances which related to the Jackson State Veterans Home and ten instances which related to the Kosciusko State Veterans Home.
- In 21 instances, we noted items located in the residents' room that were not listed on the "Inventory of Personal Effects" form. There were 11 instances related to the Kosciusko State Veterans Home in which 23 items were located and two instances related to the Collins State Veterans Home in which six items were located. There were also eight instances related to the Jackson State Veterans Home in which items, such as televisions, television stands, wheelchairs and recliners were located in the residents' rooms.

- In 16 instances, the agency could not locate the "Inventory of Personal Effects" form completed upon a resident's admission in the resident's file. There were ten instances which related to the Kosciusko State Veterans Home, four instances which related to the Jackson State Veterans Home and two instances which related to the Collins State Veterans Home.
- In all 13 instances tested at the Collins State Veterans Home, there was no supervisory review performed on the "Inventory of Personal Effects" form. Based on discussion with agency personnel, the home did not have a procedure in place requiring agency personnel to sign the forms as evidence of supervisory review.
- In nine instances, there were items listed on the "Inventory of Personal Effects" form that could not be located in the residents' room. There were five instances related to the Collins State Veterans Home in which seven items could not be located and four instances related to the Kosciusko State Veterans Home in which six items could not be located.
- In six instances, there was no date on the "Inventory of Personal Effects" form indicating when the inventory was performed. There were five instances which related to the Jackson State Veterans Home and one instance which related to the Collins State Veterans Home.

In addition, we performed testwork on 25 purchases made by residents at the Kosciusko State Veterans Home. This testwork revealed instances in which one resident purchased a wheelchair and another resident purchased an electric scooter and the items were not recorded on the individual resident's "Inventory of Personal Effects" form. We also noted instances in which one resident purchased a MP3 player and another resident purchased a cell phone, but the "Inventory of Personal Effects" form could not be located for either of the residents.

Good internal controls require detailed inventory records of each resident's personal property and possessions be recorded and reviewed upon admittance. All changes in resident's personal property and possessions should be recorded promptly and a documented review should be made of each resident's inventory records. Failure to maintain adequate internal controls over resident's inventory could allow errors, loss or theft to occur without being detected promptly.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board strengthen internal controls over resident's inventory at the state veterans homes by ensuring the "Inventory of Personal Effects" forms are completed and maintained on file. The forms should be signed and dated by the resident or the responsible party and by the agency personnel who admitted the resident. When property is purchased by a resident, the items should be added to the inventory record in a timely manner. In addition, agency personnel should perform and document review procedures. We further recommend the agency periodically compare the items on the resident's personal inventory record to the items in the resident's room and investigate any differences noted to ensure errors or theft has not occurred and make any necessary corrections on the "Inventory of Personal Effects" form.

Controls over Property and Equipment at the Administrative Office Should Be Strengthened

Finding:

While reviewing the internal controls over property and equipment at the Mississippi State Veterans Affairs Board, we noted a lack of proper segregation of duties. At the administrative office, the fiscal officer performs the procedures of recording additions and deletions of property and equipment to inventory records, placing identification tags on property and equipment, performing inventory counts and recording additions and deletions of property and equipment to the general ledger.

Good internal controls require the functions of processing and recording transactions, as well as maintaining custody of related assets, be segregated as much as possible in order to ensure that 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 and equipment.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board strengthen controls over property and equipment at the administrative office by ensuring duties are properly segregated. An independent person should perform a reconciliation between the general ledger and the property records by reconciling the capital outlay purchases as recorded on the accounting records to the property records. In addition, this same person should receive a copy of all authorized deletions directly from the salvage committee and verify deletions agree with deletions on the property records. We further recommend periodic inventory counts be performed and compared to the accounting records by independent personnel.

Duties over Bank Accounts Should Be Properly Segregated

Finding:

During our review of internal controls at the Mississippi State Veterans Affairs Board, we reviewed the residents' personal fund bank accounts and petty cash accounts at the Veterans Homes, and the donation account at the Veterans administrative office. At the Collins State Veterans Home, we noted one employee was responsible for opening the mail, recording the receipts in the receipt log and in the agency's records, preparing the deposit to the bank, and taking the deposit to the bank. In addition, this same employee was responsible for maintaining custody of the unused checks and was authorized to sign and mail the checks. Agency personnel stated this only occurred for a few months and was due to an employee being out on medical leave. We also noted one employee was responsible for maintaining custody of checks, was authorized to sign checks, and reconciled the bank statements to the agency records for the donation account at the administrative office. Good internal controls require bank account duties be properly segregated to ensure no individual has the authority to process an entire transaction. Failure to properly segregate duties could result in errors or fraud occurring without being detected in a timely manner.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board strengthen internal controls over bank accounts by segregating duties to ensure no individual has the authority to process an entire transaction. We further recommend bank reconciliations be prepared by personnel independent of the check writing process.

OTHER CONTROL DEFICIENCIES

Controls Should Be Strengthened to Ensure Contractual Services Expenditures Are Paid in Accordance with Contract Terms

Finding:

During testwork on 25 contractual expenditures at the Mississippi State Veterans Affairs Board totaling \$497,901, we noted the following problems.

- The certified nursing assistants hired by the agency through a vendor to perform nursing services at the state veterans homes received compensation of \$8,031 in excess of the terms specified in the written contractual agreement for fiscal year 2007. Our review revealed the agency paid the vendor \$20 per hour instead of \$16 per hour as specified in the contract. Also, the agency paid overtime based on the \$20 rate.
- The Oxford State Veterans Home signed a contract with a relief pharmacist. Based on the contract, the relief pharmacist was overpaid in an amount totaling \$1,680. The rates stated in the contractual agreement were \$10 per hour for on-call hours worked and \$45 per hour for call-in hours worked. However, we noted the relief pharmacist was paid at a rate of \$15 per hour for on-call hours and \$50 per hour for call-in hours. It should be noted the board minutes and the relief pharmacist's bid stated that he be paid at a rate of \$15 per hour for on-call hours and \$50 per hour for call-in hours.

Prudent business practice mandates enforcement of the terms within a signed written contractual agreement. Failure to adequately enforce terms of signed written contracts could allow improper payments to be made which could cause the agency to overspend its budget.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board strengthen control procedures over expenditures to ensure contractual expenditures comply with terms of the signed written agreements. We further recommend the agency contact the vendors in order to receive a refund for these overpayments. In addition, the agency should obtain amended contractual agreements if determined necessary.

Controls Should Be Strengthened to Ensure Insurance Premium Payments Are Properly Calculated and Charged to Employees

Finding:

During our review of 40 health and life insurance premium payments for the Mississippi State Veterans Affairs Board, we compared the insurance billing statement to the Statewide Payroll and Human Resource System (SPAHRs) pay detail report and insurance applications and noted the agency improperly calculated and collected premium payments for employees who either were newly hired and/or made changes to their coverage during fiscal year 2007. This caused the payments made to the Department of Finance and Administration - Office of Insurance to be improper. Testwork revealed the following problems.

- 1) In 16 instances, we noted the agency improperly calculated and collected payments of insurance premiums on newly hired employees. This resulted in the agency underpaying premium payments by \$4,286 for 13 employees and overpaying the premium payments by \$265 for three employees.

- 2) In one instance, we noted the agency improperly calculated and collected payments of insurance premiums on an employee who made changes to their coverage during fiscal year 2007. This resulted in the agency underpaying the premium payment by \$127.

Also, reconciliations between the insurance billing statement and the amount paid to the Department of Finance and Administration - Office of Insurance were being performed; however, we noted follow-up procedures were not being properly performed on differences relating to underpayments and overpayments of premiums. As of June 30, 2007, the past due balance totaled \$35,657.

Good internal controls require agency personnel properly calculate and collect insurance premiums to ensure payments are accurate. Good internal control procedures also require reconciliations be properly performed to detect over- and undercollection of premium payments. Failure to properly calculate and collect insurance premiums could jeopardize or disrupt insurance coverage for employees.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board strengthen control procedures over insurance premium payments by ensuring that premium payments are properly calculated and collected on employees who are newly hired and those who make changes to their coverage during the year. We further recommend the agency ensure reconciliation procedures performed are effective in detecting and resolving the underpayments and overpayments of premiums paid to the Department of Finance and Administration - Office of Insurance.

Controls Should Be Strengthened to Ensure Collateral Sufficiency Analysis Reports Are Reconciled to Agency Records

Finding:

The State Treasury Department's collateral division monitors the collateral level for banks holding public funds deposits. 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. The agencies also receive a cover letter with this report which instructs the agency to report any discrepancies in account balances to the state treasury. When errors are properly reported by agencies to the state treasury, it enables the state treasury to correct the agency's account information to ensure that collateral levels are proper for each bank holding public funds for the agency.

Testwork at the Mississippi State Veterans Affairs Board for fiscal year 2007 revealed the following problems.

- The agency did not reconcile the Collateral Sufficiency Analysis reports to bank records to ensure account balances and accounts were accurate. As a result, the agency failed to notify the state treasury that six bank accounts were not included on the Collateral Sufficiency Reports. Two bank accounts each were not recorded for the Kosciusko, Collins and Oxford State Veterans Homes.
- The agency could not locate the Collateral Sufficiency Analysis report for the quarter ending June 30, 2007.

Good internal controls dictate the agency prepare quarterly reconciliations of the Collateral Sufficiency Analysis report to bank records to ensure account balances are accurate and properly accounted for. Any discrepancies noted should be reported to the state treasury. Also, good internal controls dictate the agency maintain accounting records for review purposes. Failure to report discrepancies noted between the Collateral Sufficiency Analysis and the agency's records could result in incorrect balances on the report and in deposits not being properly collateralized. Also, failure to maintain accounting records hinders the performance of a review.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board prepare quarterly reconciliations of the Collateral Sufficiency Analysis reports to the agency records and ensure any discrepancies noted are properly investigated and reported to the State Treasury Department. The reconciliation should be reviewed and maintained on file at the agency. Documentation of the review should be evidenced by the signature and date of the reviewer.

Controls over Drug Inventory Should Be Strengthened at the Kosciusko State Veterans Home

Finding:

During our review of internal controls over the drug inventory at the Mississippi State Veterans Affairs Board, we noted three out of 15 instances, or 20 percent, in which controlled drugs were purchased and not logged into the perpetual inventory log on the date of receipt or the next business day at the Kosciusko State Veterans Home. The days ranged from three to four business days after the date of receipt. Good internal controls require controlled drugs be logged in the inventory records by the next business day. Failure to record drug purchases timely in the inventory records could result in errors or theft not being detected promptly

Recommendation:

We recommend the Mississippi State Veterans Affairs Board strengthen controls at the Kosciusko State Veterans Home by ensuring all drug purchases are properly recorded in the perpetual inventory log by the next business day after the date of receipt.

INSTANCES OF NONCOMPLIANCE WITH STATE LAWS

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

Finding:

During commodities and contractual services expenditure testwork at the Mississippi State Veterans Affairs Board, we noted ten instances out of 50 items tested, or 20 percent, 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 with state purchasing laws impedes the ability of the agency and the Department of Finance and Administration to maintain budgetary controls over the agency's expenditures.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board comply with state purchasing laws by ensuring purchase orders are prepared and approved prior to goods and services being ordered.

Interest Earned on Clearing Accounts Should Be Deposited into the State General Fund

Finding:

Our review of fiscal year 2007 bank statements revealed the Mississippi State Veterans Affairs Board failed to transfer interest earned on the agency's clearing account totaling \$272 into the state general fund. Section 7-9-12, Miss. Code Ann. (1972), requires all interest earned on clearing accounts be deposited into the state general fund. Subsection 29.60.35 of the Mississippi Agency Policies and Procedures (MAAPP) manual states, "Interest shall be transferred to the state general fund on a monthly basis unless interest is credited to the account at a different time, in which case, the interest should be transferred at the time the credit is made to the account." Failure to transfer interest to the state's general fund results in noncompliance with state law and could result in a civil penalty being levied against the agency in an amount not to exceed \$1,000.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board transfer interest earned on the agency's clearing account to the state general fund as required by state law.

Major Medical Leave Should Be Used in Accordance with State Law

Finding:

During our testwork on personal, major medical and compensatory leave at the Mississippi State Veterans Affairs Board, we noted two out of 25 instances in which eight hours of personal or compensatory leave were not taken prior to taking major medical leave. Section 25-3-95, Miss. Code Ann. (1972), states major medical leave may be used only after the employee has used eight hours of accrued personal or compensatory leave for each absence due to illness, or leave without pay if the employee has no personal leave or compensatory leave. The statute further states major medical leave may be used without prior use of personal leave to cover regularly scheduled visits to a doctor's office or a hospital for the continuing treatment of a chronic disease, as certified in advance by a physician, or for death in the employee's immediate family. In the instances noted, no documentation certifying ongoing treatment of a chronic illness or indication of a death in the employee's immediate family was on file. Failure to comply with state law could result in the unauthorized use of major medical leave and misstate personal and major medical leave balances for the agency's employees.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board ensure the use of major medical leave complies with state law. In cases where there is a continuing treatment of a chronic illness, there should be certifying documentation on file from an attending physician. In addition, when medical leave is used for a death in the employee's immediate family, this should also be noted in the employee's file.

Vendors Should Be Paid in Accordance with State Purchasing Law

Finding:

Testwork performed on commodities and contractual services expenditures at the Mississippi State Veterans Affairs Board revealed 25 invoices out of 50 tested, or 50 percent, in which the agency failed to remit payment to the vendor within 45 days after the receipt of the invoice. Section 31-7-303, Miss. Code Ann. (1972), states that requisition for payment of an invoice should be filed with the Department of Finance and Administration not later than 30 days after receipt of the invoice and receipt, inspection and approval of the goods or services. The statute further states the warrant for payment of the invoice shall be mailed or otherwise delivered not later than 15 days after filing the requisition for payment. Section 31-7-305, Miss. Code Ann. (1972), states that if the payment is not mailed or otherwise delivered within 45 days after receipt of invoice and receipt, inspection and approval of the goods and services, the agency shall be liable to the vendor, in addition to the amount of the invoice, for the interest at a rate of one and a half percent per month on the unpaid balance from the expiration of the 45-day period until payment is made. Failure to comply with state purchasing laws could result in the agency incurring additional costs through interest and penalties.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board comply with state purchasing laws by ensuring payment is remitted to vendors within 45 days after receipt of the invoice and receipt, inspection and approval of the goods and services.

Receipt of Goods and Services Should Be Documented

Finding:

During commodities and contractual services expenditure testwork at the Mississippi State Veterans Affairs Board, we noted 28 instances out of 50 items tested, or 56 percent, in which the receipt of goods or services was not documented by the agency. Section 31-7-305, Miss. Code Ann. (1972), requires a record be kept of the date of receipt, inspection and approval of the goods and services. Failure to comply with state purchasing laws could result in payment of goods or services not yet received.

Recommendation:

We recommend the Mississippi State Veterans Affairs Board comply with state purchasing laws by requiring agency personnel receiving goods or services to sign and date all invoices or other documentation as verification of receipt prior to the disbursement of funds.