



**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
SHAD WHITE  
STATE AUDITOR**

October 5, 2018

**Limited Internal Control and Compliance Review Management Report**

Mr. Shad White, State Auditor  
Mississippi Office of the State Auditor  
501 N. West Street, Suite 801  
Jackson, MS 39201

Dear Auditor White:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi Office of the State Auditor for Fiscal Year 2018. In these findings, the Auditor's Office recommends the Mississippi Office of the State Auditor:

1. Strengthen Controls to Ensure Compliance with State Laws over Bank Accounts;
2. Strengthen Controls to Ensure Compliance with State Laws over Procurement Card Purchases;
3. Strengthen Controls to Ensure Compliance over the use of State-owned Vehicles;
4. Strengthen Controls to Ensure Compliance with State Laws and Regulations over Travel;
5. Strengthen Controls over the Recording of Cash Receipts; and
6. Ensure Compliance with State Purchasing Laws over Contractual Services.

Please review the recommendations and submit a plan to implement them by October 19, 2018. 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 Office of the State Auditor to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Office of the State Auditor. If you have any questions or need more information, please contact me.

Sincerely,



STEPHANIE C. 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 Office of the State Auditor for the year ended June 30, 2018. The Office of the State Auditor's staff members participating in this engagement included Derrick Garner, CPA, Virginia Anderson, Veronica Funchess, and Kortney Gaddy, CPA.

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 a certain matter involving internal control over financial reporting and instances of noncompliance with State laws that require the attention of management. These matters are noted under the heading **OTHER CONTROL DEFICIENCIES AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW**. 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.

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## **OTHER CONTROL DEFICIENCIES AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW**

### **Finding 1: Agency Should Strengthen Controls to Ensure Compliance with State Laws over Bank Accounts.**

**Executive Summary:** During our review of bank accounts, we noted the Mississippi Office of the State Auditor – Investigative Division did not file the Public Depository Annual Report timely. In addition, reconciliations of the bank statements for the Investigative Division were not being performed, and there were no proper segregation of duties maintained by the agency between the physical custody of assets and the bank reconciliations.

**Recommendation:** We recommend the Mississippi Office of the State Auditor strengthen controls to ensure compliance with laws over their bank accounts and assets. The Public Depository Annual Report should be submitted within thirty (30) days of the end of the fiscal year to the State Treasury with accurate bank account information to ensure funds are adequately collateralized. The maximum bank account balances authorized by Department of Finance and Administration (DFA) and State Treasurer (Treasury) should be maintained by the agency. Lastly, we recommend bank reconciliations be performed monthly, as well as the implementation of segregation of duties between agency assets and reconciliations.

### **Detailed Analysis:**

Based on our review of bank accounts at Mississippi Office of the State Auditor (OSA), we noted the following problems.

- The Public Depository Annual Report was submitted to Treasury two (2) days late. The due date is 30 days following the end of the fiscal year, or July 30, 2018. Treasury received the report August 1, 2018.

- Agency did not perform a true bank reconciliation between bank statements and the agency records. Two voided checks could not be accounted for, as the checks were made payable to and mailed to the wrong entity. No stop payment was issued, and no correspondence between OSA and entity could be provided to verify checks were destroyed.
- Form 29.60.35 authorized by DFA and Treasury sets the maximum balance allowed for the bank accounts maintained by OSA. A greater than maximum balance of \$2,500 for the Imprest account was maintained for all twelve months of fiscal year, and a greater than maximum balance of \$250,000 for the Exceptions Clearing account was maintained six out of twelve months during the fiscal year.
- There were no proper segregation of duties between physical custody of assets and bank reconciliations. A person independent of preparing checks should perform bank reconciliations, and a person independent of check writing should maintain physical custody of checks.

*Section 7-9-12, Miss. Code Ann. (1972)* allows agencies to request authorization from the Department of Finance and Administration (DFA) and the Office of the State Treasurer (Treasury) to open a bank account to serve as a collection or clearing account. Each account established shall have a maximum balance to be fixed by Treasury.

*Section 27-105-5(6)(b), Miss. Code Ann. (1972)* requires a public depositor to notify the State Treasurer, no later than thirty days after the end of the fiscal year, of its bank accounts that it has with a qualified public depository, including the balance in the accounts as of the fiscal year end.

Good internal controls dictate proper segregation of duties amongst personnel over the safeguarding of assets, such as activities involving the receipt of funds and reconciliation of bank and financial records. In addition, good internal controls require the functions of maintaining custody of assets be segregated to safeguard against loss from unauthorized use or theft.

Failure to maintain bank balances as authorized by the Department of Finance and Administration (DFA) and the Office of the State Treasurer (Treasury) results in potential loss of interest revenue to the state since the clearing account was non-interest bearing. Failure to submit the Public Depositors Annual Report with accurate bank account information in a timely manner could result in Treasury not having information necessary to determine proper collateralization.

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**Finding 2: Agency Should Strengthen Controls to Ensure Compliance with State Laws over Procurement Card Purchases.**

**Executive Summary:** During our review, we noted various instances in which the agency did not adhere to the guidelines set forth by the Department of Finance and Administration (DFA) governing procurement card purchases. State laws and DFA's Purchasing Manual and Procurement Card Guidelines dictate purchases made by authorized cardholders be confirmed by submitting signed detailed receipts to aid in the proper reconciliation of the monthly statements.

**Recommendation:** We recommend the Mississippi Office of the State Auditor (OSA) strengthen controls over procurement card purchases by requiring personnel with authorized status to confirm purchases by submitting detailed signed receipts and by reconciling the receipts to the monthly statements. We further recommend the agency notify merchants that purchases made for a government entity are exempt from state and local taxes. Lastly, we recommend Mississippi Office of the State Auditor follow the MS Procurement Card guidelines set forth by the Department of

Finance and Administration to ensure compliance with laws and regulations for procurement card purchases.

**Detailed Analysis:** During our review of thirty-two (32) procurement card expenditures at Mississippi Office of the State Auditor, we noted the following:

- Twelve (12) instances in which there was no signature on the charge slips to determine if an authorized user made the purchases;
- One (1) instances in which the agency paid sales tax on purchases;
- One (1) instances in which the receipt was not broken out; therefore, auditor could not determine if the purchase was a legitimate business purchase, if it was for hotel, motel, restaurant charges, healthcare providers or for cash advances, or if sales tax was paid;
- Seventeen (17) instances in which the employee created and signed a purchase requisition, but the authorized user, the procurement director, did not sign the charge slip; and
- One (1) instance in which the card was checked out by the division director, but it was used by another employee.

*Section 31-7-9, Miss. Code Ann. (1972)* states that the Office of Purchasing, Travel, and Fleet Management at the Department of Finance and Administration (DFA) may adopt purchasing regulations governing the use of procurement cards. Section II B requires the cardholder to assure that a list of the items purchased (either in the form of a detailed sales receipt or an order description) is reviewed and confirmed by the cardholder. *Section 27-65-105(a), Miss Code Ann. (1972)* states that governmental agencies are exempt from state sale tax. Section IX of the Procurement Guidelines requires an agency using a Sign In/Sign Out form to have procedures on file for handling of the department card.

Failure to comply with the requirements of the state procurement manual and guidelines governing the Small Purchase Procurement Card program could allow improper payments to be made or purchases to be made by unauthorized personnel.

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**Finding 3: Agency Should Strengthen Controls to Ensure Compliance over the use of State-owned Vehicles.**

**Executive Summary:** Mississippi Office of the State Auditor did not follow the guidelines set forth in the Mississippi Agency Accounting Policies and Procedures Manual (MAAPP), Sections 15.20.30, or the Department of Finance and Administration's (DFA) Fleet Manual, Sections 4.103.01 to 4.103.04, for the use of state-owned vehicles. There were no Commuting Authorization Request Forms on file required to be submitted to Bureau of Financial Management (BFM) for approval of state-owned vehicles used for commuting purposes. In addition, there were multiple instances in which the vehicle use agreement was neither completed nor approved timely by the Director.

**Recommendation:** We recommend the Mississippi Office of the State Auditor implement policies and procedures to ensure compliance with the MAAPP Manual and the Fleet Manual for the use of state-owned vehicles. The proper forms and documentation should be completed and submitted to the Bureau of Financial Management for approval. Lastly, we recommend the vehicle use agreements denoting the purpose of the vehicle use be completed and approved timely by the Division Director.

**Detailed Analysis:** During our review of state-owned vehicles for the Mississippi Office of the State Auditor Compliance audit, we noted the following:

- OSA did not comply with MAAP manual requirements of submitting any of the Commuting Authorization Request Form, VR-1, and documentation supporting assignments to BFM for employees' assigned.
- Four (4) instances in which the vehicle use agreement was not completed in FY18 and/or the Director did approve the form until FY19.

*DFA's Fleet Manual, Section 4.103*, states, "Every state-owned vehicle must have an active assignment. All state-owned vehicles shall be assigned as one of three categories: law enforcement, commute, and non-commute. Vehicle assignments are designated on the VR-1 form by agency heads when requesting to purchase the vehicle. Documentation supporting assignments must be submitted electronically with the VR-1 form using the P-1 process. Purchases and assignments are approved or denied by the BFM when the VR-1 is submitted. Supporting documentation needs to be included with the VR-1 using the Appendix D, when the vehicle is to be assigned as law enforcement or commute."

In addition, *Section 4.103.02* states, "Commute assignment is defined as a state-owned vehicle assigned to be driven from an employee's official duty station or other temporary place of work to an employee's residence as needed. A commute assignment is only authorized when it is the most cost effective or practical alternative. State-owned vehicles may not be used in a commuting capacity solely by virtue of an authorized user's job title or position. A commute vehicle cannot be part of a compensation or administrative package. Before any commuting assignment is made, an agency must clearly demonstrate to the BFM that providing the user a vehicle would be a cost savings to the agency and the State..."

Failure to comply with the requirements of DFA's Fleet manual could allow for possible wrongful litigation if an employee does not timely complete vehicle use agreement and follow the guidelines set forth in the agreement.

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**Finding 4: Agency Should Strengthen Controls to Ensure Compliance with State Laws and Regulations over Travel.**

**Executive Summary:** Multiple instances were noted in which reimbursements were made under the following conditions: incorrect amounts were paid, travel authorization forms were not obtained prior to travel, and proper documentation for attendance to conferences, meetings, or associations was not obtained.

**Recommendation:** We recommend that the Mississippi Office of State Auditor strengthen controls over the reimbursement of travel expenditures to ensure compliance with state laws and rules and regulations set forth by the Mississippi Department of Finance and Administration.

**Finding Detail:** During our review of travel expenditures for fifty-five (55) travel vouchers, we noted the following:

- Six (6) instances in which approval from a Division Director or equivalent was not documented for employees who traveled to conventions, associations, meeting, or conferences.
- Two (2) instances in which employee traveled in private automobile and reimbursed at incorrect rate. The employees was reimburse at the \$0.535 rate instead of the correct rate of \$0.545.
- Eight (8) instances in which the auditor could not verify expenses for hotel stay, and/or verify that no taxes were paid if the expenses were direct billed to the agency due to lack of supporting documentation attached to the travel voucher.
- Five (5) instances in which auditor could not completed testwork due page two of the travel voucher not being attached. Therefore, the auditor could not verify if the purpose of the travel was for legitimate business purpose, travel in private automobile was reimburse properly, and/or meals was within the maximum daily limit set by DFA.
- One (1) instance in which the travel voucher was not properly signed as approved for payment.

Section 25-1-83, Miss. Code Ann. (1972), states (in part), "It is further provided that no funds appropriated by the Legislature or received by any agency, department, or institution from any source whatever shall be used in defraying the expenses of any state employee, other than an officer or department head, in attending a convention, association, or meeting, unless such employee be duly authorized by prior approval in writing of the departmental head or officer in charge of such department, agency, or institution..."

DFA's Office of Purchasing, Travel & Fleet Management's (OPTFM) Travel Policy Rules & Regulations Section 3.109.A states (in part), "Reimbursement for the use of a personal vehicle for official state business (includes private airplanes flown by the employee) is based on actual miles traveled and will be at the same rate that federal employees are reimbursed for using private vehicles for official federal business travel. The General Services Administration, commonly referred to as GSA, not the IRS, publishes this rate. The current reimbursement rate is listed in the Mileage Reimbursement Rate memo (<http://www.dfa.ms.gov/dfaoffices/purchasing-travel-and-fleet-management/purchasing-and-travel/travel/>). Mileage reimbursement shall not exceed the maximum published rate. Local boards may set a rate which shall not be less than the rate referenced above and not greater than the maximum reimbursement rate for state employees."

DFA's Office of Purchasing, Travel & Fleet Management's (OPTFM) Travel Policy Rules & Regulations Section 2.106 states (in part), Travel Vouchers must be typed or completed in ink and signed by the traveler. The signature is a certification by the traveler that reimbursement is being requested for actual expenses that are valid business expenses. All Travel Vouchers must have the original invoices for which reimbursement is claimed attached. Invoices must be submitted for hotel, airfare and airport parking and other charges in excess of \$10. Travel reimbursement will be made for all taxes paid by the traveler; however, when expenses are billed State Travel Policy Rules & Regulations Revised: July 2017 Page 13 directly to the governmental entity through direct bill or through the State Travel Card, taxes shall not be charged and paid."

Failing to comply with state travel laws, rules and regulations could result in incorrect or improper payments to employees for reimbursement of travel expenses.

#### **OTHER CONTROL DEFICIENCY**

#### **Finding 5: Agency Should Strengthen Controls over the Recording of Cash Receipts.**

**Executive Summary:** In order to ensure State assets (i.e. cash) are effectively and efficiently managed, timely and adequate supervision and control of those assets must be implemented. Lack of controls can lead to misappropriated assets, fraud, waste, and abuse. Agency did not maintain adequate records for Cash Receipts.

**Recommendation:** We recommend the Mississippi Office of the State Auditor maintain a Receipt Log documenting the details of when cash and checks are received to ensure all filings with Department of Finance and Administration (DFA) are made timely and accurately.

**Detailed Analysis:** During our review of cash receipts at Mississippi Office of the State Auditor, we noted the following:

- The agency does not maintain a Receipt Log documenting the date checks are received for continuing professional education conferences; therefore, auditor could not verify deposits are timely made to the bank.
- There was one (1) instance in which auditor could not match an amount collected for the DAG Asset/Forfeiture account from the documentation prepared by Investigations to the Treasury receipt received by the OSA Director of Budget and Finance.

Good internal controls require the documentation of cash received, such as a receipt log, so an adequate audit trail is in place. Good internal controls also require cash receipts be deposited into the agency's bank account promptly to reduce the likelihood of loss or theft.

Failure to maintain a Receipt Log could lead to lost or misplaced receipts. The untimely deposit and transfer of funds may result in the loss of investment earnings for the State.

## **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**

### **Finding 6: Ensure Compliance with State Purchasing Laws over Contractual Services.**

**Executive Summary:** Multiple instances were noted in which payment requests were not filed timely by the agency, as well as multiple instances of purchase orders issued after the invoice date. In addition, there was no proper documentation of goods and services being received and inspected through the use of a received date or stamped date on the invoices.

**Recommendation:** We recommend Mississippi Office of the State Auditor implement policies and procedures to ensure compliance with state purchasing laws over Contractual Services. Purchase orders should be issued and approved before the receipt of goods and services, and all invoices should be date stamped to ensure all payment requests are filed timely for payment to the Department of Finance and Administration.

**Detailed Analysis:** During our review of 43 contractual services expenditures at the Mississippi Office of the State Auditor (OSA), we noted the following:

- Four (4) instance in which the payment was not made within 30 days after the date of the invoice. (Auditor used date of invoice since the agency did not date stamp invoices when received.)
- Eleven (11) instances in which the purchase order date was after the date of the invoice.
- Twenty-seven (27) instances in which we were unable to determine if the goods or services



were received because there were no signatures or date stamps on the invoices.

*Section 7-7-23(1), Miss. Code Ann. (1972)* states, "Purchases of equipment, supplies, materials or services of whatever kind or nature for any department, officer, institution or other agency of the state, the cost of which is to be paid from funds in the State Treasury on State Fiscal Officer disbursement warrants, may be made only by written purchase orders duly signed by the official authorized so to do, on forms prescribed by the State Fiscal Officer."

*Section 31-7-303, Miss. Code Ann. (1972)* states, "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 or services, except that in the case of a bona fide dispute the requisition for payment shall contain a statement of the dispute and authorize payment only in the amount not disputed."

*Section 31-7-305, Miss. Code Ann (1972)* states, that all public bodies of the state shall "keep a record of the date of receipt of invoice, dates of receipt, inspection and approval of the goods or services..."

The Mississippi Agency Accounting Policies and Procedures Manual (MAAPP) Section 29.60.51 states, "Smaller agencies may use a stamp format placed on the packing slip, delivery ticket or invoice. This format should include condition of merchandise, quantity received, date, and the signature of the employee receiving the merchandise from the vendor."

Failure to document a receipt date on invoices and/or lack of documentation to verify that professional or personal services were actually performed as contracted or agreed upon can lead to goods and services not being verified and invoices not being paid for in a timely manner. Failure to comply with state law and compliance could result in the purchase of unauthorized services, equipment, materials, etc.

**End of Report**



**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**SHAD WHITE**  
**STATE AUDITOR**

December 4, 2018

Stephanie Palmertree, Director  
Financial & Compliance Audit Division  
Office of the State Auditor  
P. O. Box 956  
Jackson, MS 39205

Dear Mrs. Palmertree:

**Formal Response to Limited Internal Control and Compliance Review Management Report**

What follows are the agency's responses to the Limited Internal Control and Compliance Review Management Report. These responses mirror the more detailed responses already provided by administrative personnel. The findings responses are given in the order presented, and are as follows:

Finding 1 relating to Bank Accounts: In the future, the Public Depository Annual Report will be filed timely. Bank reconciliations will be performed in a timely manner by personnel who have no access to assets.

Finding 2 relating to Procurement Cards: The agency will adhere to the guidelines set forth by the Department of Finance and Administration for use of Procurement Cards and ensure that all employees are adhering to those guidelines.

Finding 3 relating to State Owned Vehicles: The agency will comply with guidelines set forth in the MAAPP Manual relating to the use of State Vehicles.

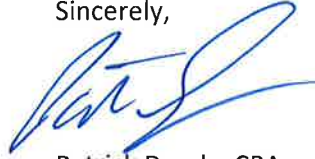
Finding 4 relating to Official Travel: The agency will adhere to the required procedures to ensure compliance with State Laws and Regulations over Official Travel.

Finding 5 relating to Cash Receipts: The agency will create a check log for funds received for CPE seminars. The DAG spreadsheet reviewed by the auditor is an estimated amount provided by an outside source. The exact amount is not known until the deposit has been received from the U.S. Department of Justice.

Finding 6 relating to Contractual Services: The agency will enact policies and procedures to ensure payments are not made prior to receipt of the proper documentation. The agency will purchase a date stamp to provide an accurate record of when invoices are received by Accounts Payable.

If I can provide any additional information with regard to these responses, please contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Patrick Dendy', with a stylized flourish at the end.

Patrick Dendy, CPA  
Deputy State Auditor

### **Updated Policies and Procedures January 10, 2019**

As a result of the recent Compliance Audit of our agency, I am directing the following policies and procedures to be implemented currently:

1. The Budget Director for the Office of the State Auditor shall annually verify that the Public Depository Annual Report is filed with the State Treasurer's Office by July 30 each year.
2. The Exception Fund Clearing Account bank statements shall be sent to the Budget Director. The Budget Director shall provide a copy of the statement to the Department of Investigations for their reconciliation to the case management system. The original bank statement, checks and deposit information shall be provided to the Director of the Technical Assistance Division so that the bank statement can be reconciled timely each month.
3. The Property Officer shall confirm that vehicle use agreements are approved and filed timely with the Bureau of Fleet Management.
4. The Office of the State Auditor will maintain a Receipt Log documenting the details of when checks or cash are received. The Log will be kept by the Receptionist, who opens the mail. This includes all checks coming in the mail.