



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

August 8, 2017

Limited Internal Control and Compliance Review Management Report

Malcolm White, Executive Director
Mississippi Arts Commission
501 North West Street,
Suite 1101A Woolfolk Building
Jackson, Mississippi 39201

Dear Mr. White:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi Arts Commission for a period of July 1, 2014 to June 30, 2016. In these findings, the Auditor's Office recommends the Mississippi Arts Commission:

1. Strengthen controls over cash receipts;
2. Strengthen controls over travel;
3. Strengthen controls over contractual expenditures;
4. Strengthen controls over GAAP Packet submission;
5. Strengthen controls over procurement card purchases;
6. Strengthen controls over commodity expenditures;
7. Strengthen controls over subsidies, loans, and grants expenditures;
8. Strengthen controls over personal, medical and compensatory leave records; and
9. Strengthen controls over Commission minutes.

Please review the recommendations and submit a plan to implement them by August 22, 2017. 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.

Mississippi Arts Commission
August 8, 2017
Page 2

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

Sincerely,

A handwritten signature in black ink that reads "Stephanie C. Palmertree". The script is cursive and fluid, with the first name being the most prominent.

Stephanie C. Palmertree, CPA, CGMA
Director, Financial and Compliance Audit
Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi Arts Commission for the two years ended June 30, 2016. The Office of the State Auditor's staff members participating in this engagement included Deanna White, CPA, Selena Davis, CPA, Lee Alford, Virginia Anderson, Kortney Gaddy, Emily Mathis and John Brandon.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

In performing our review, we noted certain matters involving the internal control over financial reporting and instances of noncompliance that require the attention of management. These matters are noted under the headings **OTHER CONTROL DEFICIENCIES** and **INSTANCES OF NONCOMPLIANCE WITH STATE 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.

OTHER CONTROL DEFICIENCIES & INSTANCES OF NONCOMPLIANCE

Finding: Agency Should Strengthen Internal Controls over Cash Receipts

Executive Summary: In order to ensure timely transfer of funds to Treasury, the agency must document in agency records the date funds are received. During our review of ten cash receipts at the Mississippi Arts Commission (MAC), the auditors noted four instances in which checks were not deposited to Treasury within the allotted time frame and three instances in which checks were not recorded in the daily cash receipts log.

Recommendation: We recommend the MAC strengthen control over cash receipts to ensure compliance with Section 7-9-21, Miss. Code Ann. (1972) by logging cash receipts and promptly making deposits to the Treasury.

Detailed Analysis: During our review of ten cash receipts at the MAC, the auditors noted the following problems:

- In four instances, checks were not deposited to Treasury within the allotted time frame of two business days. In two of these instances, MAC did not date stamp the check, therefore the auditors were unable to determine if the check was deposited in the allotted time frame.
- In three instances, checks received by MAC were not recorded in the daily cash receipts log.

Good internal controls dictate cash receipts be recorded in a cash receipts log and deposited promptly to reduce the likelihood of loss or theft.

Section 7-9-21, Miss. Code Ann. (1972), requires agencies to deposit funds with the State Treasury by the end of the next business day following the date the funds are collected. The untimely deposit of funds may result in the loss of investment earnings and increase the risk of theft and/or misplacement of funds while held at the agency. Inaccurate daily cash receipts logs could result in error or fraud related to revenue.

Finding: Agency Should Strengthen Controls Over Travel To Ensure Compliance With State Laws and Regulations.

Executive Summary: In order to ensure compliance with state laws and regulations related to travel, the agency must strengthen internal controls over travel expenditures. Section 25-1-83, Miss. Code Ann. (1972), *Mississippi Agency Accounting Policies and Procedures Manual* and State Travel Manual. During our testing we noted multiple instances in which the Mississippi Arts Commission did not comply with states rules and regulations.

Recommendation: We recommend Mississippi Arts Commission strengthen internal controls over travel to ensure compliance with Section 25-1-83, Miss. Code Ann. (1972), *Mississippi Agency Accounting Policies and Procedures Manual* and State Travel Manual. Failure to comply with these laws, rules and regulations related to travel could result in misstatement, error, or undetected fraud.

Detailed Analysis: During our review of Mississippi Arts Commission's travel expenditures, the auditor tested 11 travel vouchers and noted the following:

- six instances in which prior authorization was not obtained for the trip;
- four instances in which state tax was paid on hotels when an employee's travel card was used;
- three instances in which a travel voucher did not have a proper signature;
- two instances in which improper meal reimbursement rates were used; and,
- one instance in which employee received reimbursement for meals which were provided during a conference.

Section 25-1-83 of the Mississippi Code Ann. (1972) requires prior written approval from the department head for employee attendance at any convention, association or meeting in order for expenses to be reimbursed. Such reimbursed expenses must then be annually reported to the Legislature.

DFA's Travel Manual's Section 106 (p.12) states," Travel reimbursement will be made for all taxes paid by the traveler; however, when expenses are billed directly to the governmental entity through direct bill or through the State Travel Card, taxes shall not be charged and paid."

DFA's Travel Manual's Section 106 (p.12) states, "The signature is a certification by the traveler that reimbursement is being requested for actual expenses that are valid business expenses."

DFA's Travel Manual's Section 106 (p.13) states, "Meals shall not be claimed as expenses if the meals are included in the conference registration fee."

DFA's Travel Manual's Section 121 (p.29) states, "Unless the agency pays the hotel directly, employees may pay taxes and be reimbursed; however, employees should request that taxes not be assessed when traveling on state business. When payment for instate lodging is made with the UMB

Travel Card, sales tax is considered an unauthorized expense and as such should not be placed on the travel card.”

DFA’s Travel Manual’s Section 124 (p.31) states, “If you cannot find the city you are looking for, locate the county and use the amount listed. If neither the city nor county is listed, the maximum state reimbursement rate is \$41.00/day.” Note: Travel to Alaska is considered within the continental limits of the United States and would be reimbursed at the maximum state reimbursement rate allowed, \$56 per table.

The *Mississippi Agency Accounting Policies and Procedures* manual section 13.20.40 states, “Once all travel vouchers have been received, approved and entered into the Statewide Payroll and Human Resource System, the summary record must be created for each traveler in order for the travel vouchers to process for payment.”

Good internal controls require proper review of all travel expenditures.

Finding: Agency Should Strengthen Internal Controls over Contractual Expenditures

Executive Summary: During our compliance review the auditor noted five instances in which payments were not made within 30 days after receipt of invoice, three instances in which supporting documentation was not maintained and two instances in which purchase orders were not created prior to the receipt of goods or services being received.

Recommendation: We recommend the Mississippi Arts Commission strengthen controls related to contractual services expenditures to ensure proper supporting documentations is maintained to comply with related laws and regulations. Payments should be made timely and purchase orders should be issued and approved prior to the receipt of goods and services.

Detailed Analysis: During our review of 40 contractual service expenditures at the Mississippi Arts Commission, we noted the following problems.

- Five instances in which payments were not made within 30 days after receipt of invoice. These instances on average were 29 days past due.
- Two instances in which purchase orders were not created prior to goods or services being received.
- Three instances in which supporting documentation was not maintained for contractual service expenditures related to hotel lodging for grant panelists coming into the Jackson area to review and provide feedback on each grant application submitted to MAC.

Section 31-7-303, Miss. Code Ann. (1972) requires payments to be made within 30 days of the receipt of the invoice and receipt, inspection and approval of the goods or services. Section 7-7-23, Miss. Code Ann. (1972) requires purchase orders to be issued for goods and services paid from funds in the State Treasury. Purchase orders should be dated prior to the receipt of the goods and services to ensure budgetary constraint of purchasing. *Mississippi Agency Accounting Policies and*

Procedures (MAAPP) manual, section 25.10.10, and the crosswalk of SAAS to MAGIC account numbers, specify the account numbers that are required to have purchase orders.

Good internal controls require that the agency maintain original supporting documentation for contractual services to ensure the proper amount and classification of expenditure.

Failure to submit payments within thirty days of the receipt of the invoice and receipt, inspection, and approval of the goods and services results in untimely payments to vendors. Failure to create and approve a purchase order prior to the date the goods and services are received impedes the ability of the agency and the Department of Finance and Administration to maintain budgetary controls over the agency's expenditures. Furthermore, failure to maintain source documentation could result in the mismanagement of agency funds.

INSTANCES OF NONCOMPLIANCE

Finding: Agency should strengthen controls over GAAP Packet submission

Executive Summary: The agency did not submit a GAAP Representation Letter as part of its fiscal year 2015 GAAP Packet.

Recommendation: We recommend that the MAC personnel ensure the GAAP Representation Letter is submitted as part of its GAAP Packet for each fiscal year.

Detailed Analysis: During our review of the MAC, the auditor noted that the agency did not submit a GAAP Representation Letter as part of its FY 2015 GAAP Packet.

The Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual Subsection 27.40.50 requires agencies submit a GAAP Representation Letter as part of their GAAP Packets. The Agency Representation Letter (Form 27.40.50) is written confirmation from the agency to the auditor about the fairness of various financial statement elements. The purpose of the letter is to emphasize that the financial statements are the agency's representations, and thus, the agency has the primary responsibility for their accuracy. Auditing standards dictate that certain written representations be made to the auditor to confirm oral understandings and reduce the probability of misunderstandings.

The agency's financial statements may not be a representation of the agency, could be inaccurate, or not in conformity with generally accepted accounting principles due to the agency not understanding it's ultimately responsible for the accuracy and fairness of various financial statement elements.

Finding: Agency Should Strengthen Controls over Procurement Card Purchases

Executive Summary: During our review of the MAC procurement card expenditures, the auditor noted that the cardholders and/or the approving official did not sign the monthly statements, as required by the *Mississippi Procurement Manual*.

Recommendation: We recommend the MAC ensure compliance with the *Mississippi Procurement Manual* by having cardholders and/or approving official review and sign monthly procurement card statement.

Detailed Analysis: During our review of procurement card purchase, we noted that the cardholders and/or the approving official did not sign any monthly statements for a period of July 1, 2014 to June 30, 2016.

The *Mississippi Procurement Manual* requires that "Upon receipt of the monthly statement, the cardholder shall review all charges to assure accuracy, complete applicable dispute documents, if needed, reconcile the statement with copies of receipts and order logs, approve and sign the statement. Forward the statement, copies of receipts, logs and disputed documents to the appropriate official within the agency according to agency policy. This should be done within one day after receipt of the statement."

Cardholders and the agency program coordinator must sign the statements to verify that he/she has assured accuracy of the statement and it is understood he/she may be held jointly liable for any purchases that are approved by the program coordinator that are not in compliance with the procedures detailed in the Procurement Card Guidelines. In addition to being responsible for any such charges, the agency may lose privilege of using the procurement card program.

Finding: Agency Should Ensure Compliance with State Purchasing Laws related to Commodities

Executive Summary: During our review commodity expenditures at the Mississippi Arts Commission the auditor noted one instance in which a purchase order was issued after the receipt of goods and services.

Recommendation: We recommend the Mississippi Arts Commission ensure compliance with Section 7-7-23, Miss. Code Ann. (1972) by issuing purchase orders prior to the receipt of goods and services.

Detailed Analysis: During our review of 20 commodity expenditures at the Mississippi Arts Commission, the auditor noted one instance in which a purchase order was not dated prior to the receipt of goods and services.

Section 7-7-23 of the Mississippi Code of 1972 states that "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. Purchases of such equipment, supplies, materials, or services, as specified herein, made without the issuance of such purchase orders shall not be deemed to be obligations of the state unless the State Fiscal Officer, by general rule or special order, permits certain purchases to be made without same... It shall be the duty of the proper official in each department or agency to forward the copy of each purchase order to the State Fiscal Officer on the same day the said order is issued."

Failure to comply with state law and compliance could result in the purchase of unauthorized services, equipment, materials, etc.

OTHER CONTROL DEFICIENCIES

Finding: Agency Should Strengthen Controls Over Subsidies, Loans, and Grant Expenditures

Executive Summary: During our testing, we found that subsidies, loans, and grant expenditures at the MAC are not currently being properly approved by authorized agency personnel prior to issuance.

Recommendation: We recommend the Mississippi Arts Commission strengthen controls over subsidies, loans, and grants expenditures by ensuring that payments are properly approved by authorized agency personnel prior to issuance.

Detailed Analysis: During our review of 40 subsidies, loans, and grant expenditures at the Mississippi Arts Commission, we noted:

- 16 instances in which Mississippi Arts Commission authorized personnel did not sign the Request for Payment form as documentation for supervisory review prior to issuance of payment.
- One instance in which the Request for Payment form was not signed by the authorizing official of the grantee prior to issuance of payment.

Good internal controls require proper approval of request for payments by authorized agency personnel to ensure that the payment is accurate, complete, properly classified and properly valued prior to issuance of funds to grantee. The failure of the agency to have proper approval of grant payments by authorized agency personnel could result in unauthorized payments being issued to the grantee.

Finding: Agency Should Strengthen Controls Over Personal, Medical, and Compensatory Leave

Executive Summary: During our testing, we noted a MAC employee's leave had instances in which the employee's leave slips were not authorized by a supervisor. We also noted an instance in which an employee's leave was not properly recorded into SPAHRS.

Recommendation: We recommend the Mississippi Arts Commission strengthen controls to ensure leave slips are approved by authorized personnel and accurate leave records are maintained on each employee.

Detailed Analysis: During our review of employee leave for ten Mississippi Arts Commission employees, the auditor noted the following:

- two instances in which an employee's leave slip was not authorized by a supervisor; and
- one instance in which leave was not properly recorded into SPAHRS.

Good internal controls require leave be properly approved by a supervisor and recorded into SPAHRS accurately reflecting personnel records. Without supervisory approval of employee leave or documentation of employee leave taken, errors in employee leave balances could occur and not be detected promptly.

Finding: Agency Should Strengthen Internal Controls Over Board Minutes Documentation

Executive Summary: MAC board minutes were not properly signed and approved by the Chairman of the Board. Good internal controls dictate all board minutes should be signed, documenting approval.

Recommendation: We recommend that the MAC strengthen controls to ensure all board minutes are signed by a designated board member to document approval as the official record of board actions.

Detailed Analysis: During our review of the MAC board minutes, the auditor noted all board minutes were not properly signed and approved by the Chairman of the Board.

According to the MS Code Section 25-41-11, "Minutes shall be kept of all meetings of a public body, whether in open or executive session, showing the members present and absent; the date, time and place of the meeting; an accurate recording of any final actions taken at such meeting; and a record, by individual member, of any votes taken; and any other information that the public body requests be included or reflected in the minutes. The minutes shall be recorded within a reasonable time not to exceed thirty (30) days after recess or adjournment and shall be open to public inspection during regular business hours."

Good internal controls require that all minutes of board meetings held by the agency should be signed by approving personnel. Failure to maintain documentation of signed board minutes could result in inconsistent records maintained by the agency.

End of Report