



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

July 13, 2017

Limited Internal Control and Compliance Review Management Report

Katherine Collier, Executive Director
Mississippi Public Service Commission
P.O. Box 1174
Jackson, MS 39215-1174

Dear Ms. Collier:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi Public Service Commission for the Fiscal Year 2016. In these findings, the Auditor's Office recommends the Mississippi Public Services Commission:

1. Strengthen controls over procurement card purchases;
2. Obtain adequate surety bond coverage;
3. Deposit funds to the agency's bank account promptly, and transfer funds to the state treasury timely;
4. Comply with state laws over agency bank accounts; and,
5. Comply with state purchasing laws.

Please review the recommendations and submit a plan to implement them by July 27, 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, 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 Public Service Commission to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Public Service Commission throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in black ink that reads "Stephanie C. Palmertree".

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 Public Service Commission for the year ended June 30, 2016. The Office of the State Auditor's staff members participating in this engagement included Thomas Wirt, CPA, Selena Davis, CPA, Virginia Anderson, Richard Aultman, CPA, John Brandon and Elevia Tate.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of 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 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

Finding: Controls over Procurement Card Purchases Should Be Strengthened

Executive Summary: Multiple instances were noted in which purchases made with procurement cards were not signed by the cardholder or purchaser at the agency. State regulations require purchases made with procurement cards to be confirmed in writing by the cardholder.

Recommendation: We recommend the Mississippi Public Service Commission strengthen controls over procurement card purchases by requiring personnel to confirm purchases by signing the charge slips or invoices.

Finding Detail: 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 10.112.04 of the *Mississippi Procurement Manual* requires a list of items purchased (either in form of a detailed sales receipt or an order description) to be reviewed and confirmed in writing by the cardholder. The list should have the cardholder's printed name and signature.

Based on testwork performed over ten procurement card transactions, we noted six instances totaling \$5,191 in which there was no signature on the charge slips to determine if the purchases were made by an authorized user. Failure of the cardholder to initial/sign receipts for purchases could allow improper payments to be made or purchases to be made by unauthorized personnel.

Finding: Agency Should Obtain Adequate Surety Bond Coverage

Executive Summary: During fiscal year 2016, the Mississippi Public Service Commission did not have adequate surety bond coverage. Review of supporting documentation revealed the agency's blanket bond coverage expired in January of 2011. This coverage included all employees.

Recommendation: We recommend the Mississippi Public Service Commission strengthen controls over transactions and records by obtaining adequate surety bond coverage for all employees with significant financial responsibilities and custody of records.

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

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding: Funds Should Be Deposited Promptly and Transferred Timely to the State Treasury

Executive Summary: Multiple instances were noted in which checks received at the agency were not deposited timely into the agency's clearing bank account. In addition, transfers from the agency's bank account to the state treasury were not made timely in accordance with state law.

Recommendation: We recommend the Mississippi Public Service Commission ensure all cash receipts are deposited into the agency's clearing account promptly upon receipt and transfers to the state treasury are made timely in compliance with state law.

Finding Detail: Good internal controls dictate cash receipts should be deposited into the agency's clearing account promptly to reduce the likelihood of loss or theft. In addition, 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.

During review of cash receipts collected by the Mississippi Public Service Commission, we noted 71 of the 126 checks received by the agency during fiscal year 2016, or 56 percent, were not deposited into the agency's clearing bank account timely. The range of time from receipt at the agency until deposit to the bank account was approximately 3 to 45 business days. In addition, we noted the funds are not transferred to the state treasury timely. Only two transfers to the state treasury were made during fiscal year 2016. The untimely deposit and transfer of funds may result in the loss of interest income and increase the risk of theft and/or misplacement of funds while held at the agency.

Finding: Agency Should Comply with State Laws over Bank Accounts

Executive Summary: State law permits agencies to open bank accounts that must be maintained in accordance with regulations established by the Department of Finance and Administration (DFA) and the Office of the State Treasurer (Treasury). We noted the Mississippi Public Service Commission was not compliant with several regulations. The agency maintained excessive cash balances in their account, did not submit required documentation to Treasury used to ensure proper collateralization of public funds, wrote checks from the account to vendors other than the state treasury, and did not properly accrue the cash balance in the account as of fiscal year-end into the state's MAGIC general ledger system.

Recommendation: We recommend the Mississippi Public Service Commission ensure compliance with state laws over agency bank accounts. Account balances should be maintained as authorized and transfers to the state treasury should be made timely. Expenditures should only be paid out of the agency's funds in MAGIC after receipts have been transferred to the state treasury. The cash balance in the agency's bank account at the end of each fiscal year should be accrued into MAGIC by the agency with an annual GAAP packet.

Finding Detail: During review of the Mississippi Public Service Commission's (PSC) clearing bank account, we noted the following:

- PSC did not comply with the maximum allowed balance of \$40,000 as approved by DFA and Treasury. PSC's clearing bank account maintained month ending balances that ranged between \$151,759 and \$278,313 for all 12 months of fiscal year 2016. It should be noted that this is a non-interest bearing account;
- PSC did not submit the Public Depositor Annual Report Form to Treasury for fiscal year 2016. The due date is 30 days from the end of the fiscal year; and,
- The agency paid \$17,359 of expenditures out of their collection bank account; however, this account should only be used to collect license, fees & permits that are to be subsequently transferred to the state treasury and credited to the agency's MAGIC funds which are then used to pay agency expenditures. In addition, PSC did not submit a GAAP Packet to DFA in order to accrue the expenditures to MAGIC trial balances. Furthermore, the cash in checking account of \$146,422 at June 30th was not accrued into MAGIC.

Section 7-9-12, Miss. Code Ann. (1972) allows agencies to request authorization from DFA and Treasury to open a bank account to serve as a collection or clearing account. Section 7-9-21, Miss. Code Ann. (1972) requires agencies to transfer monies deposited in agency clearing bank accounts to the state treasury within two days.

Section 27-105-5(6)(b), Miss. Code Ann. (1972) requires a public depositor to notify Treasury, 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.

Section 27-104-4, Miss. Code Ann. (1972) requires each state agency to prepare annual financial statements at such times as determined by the State Fiscal Officer.

Failure to maintain bank balances as authorized by DFA and Treasury results in potential loss of interest income to the state. 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. Failure to prepare GAAP financial statements leads to misstatements in the state's Comprehensive Annual Financial Report.

Finding: Agency Should Comply with State Purchasing Laws

Executive Summary: Multiple instances were noted in which purchase orders were not obtained prior to ordering goods or services. In addition, we noted multiple instances in which invoices were paid for goods that were not properly documented as received and inspected prior to payment. State law dictates purchases should be properly authorized, and, goods and services should be properly inspected, approved and documented prior to remitting payment of invoices.

Recommendation: We recommend the Mississippi Public Service Commission ensure compliance with state purchasing laws by issuing and approving purchase orders prior to the receiving goods and services. Personnel receiving goods or services should sign and date all invoices or other documentation as verification of proper receipt of goods or services prior to the disbursement of funds.

Finding Detail: 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.

Section 31-7-305, Miss. Code Ann. (1972) requires a record to be kept of the date of receipt of invoice and dates of receipt, inspection and approval of the goods or services.

During our review of 20 contractual services expenditures, we noted:

- Five instances in which purchase orders were prepared after the invoices were received; and,
- Four instances in which invoices were not initialed/signed to indicate services were received.

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 DFA to maintain budgetary controls over the agency's expenditures. Failure to keep a record of services received could result in payment for services not yet received.

End of Report