



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
Shad White
AUDITOR

December 21, 2018

Limited Internal Control and Compliance Review Management Report

Mr. Michael McBunch
President, State Board of Barber Examiners
131 West Main Street
Tupelo, MS 38804

Dear Mr. McBunch:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the State Board of Barber Examiners for Fiscal Year 2017. In these findings, the Office of the State Auditor recommends the State Board of Barber Examiners:

1. Strengthen Controls for Segregation of Duties over Agency Assets;
2. Strengthen Controls to Ensure Compliance with State Law over Employee Leave;
3. Strengthen Controls to Ensure Compliance with State Law over Travel;
4. Strengthen Controls to Ensure Compliance with State Law over Cash Receipts;
5. Strengthen Controls to Ensure Compliance with State Purchasing Laws over Commodities;
6. Strengthen Controls to Ensure Compliance with State Laws for the Recording and Availability of Board Minutes; and
7. Strengthen Controls to Ensure Full Compliance with the Agency Bond Coverage Statute.

It is our understanding that the State Board of Barber Examiners has in some cases begun implementing policies and procedures to correct the issues raised in this report. To that end, please review the recommendations and submit a plan to implement them, or a description of corrective action that has already been implemented, by January 4, 2019. 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

State Board of Barber Examiners

December 21, 2018

Page 2 of 8

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 State Board of Barber Examiners to carry out its mission more efficiently. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is fluid and cursive, with the first name "Stephanie" being larger and more prominent than the last name "Palmertree".

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

The Office of the State Auditor has completed its limited internal control and compliance review of the State Board of Barber Examiners for the year ended June 30, 2017. The Office of the State Auditor's staff members participating in this engagement included Derrick Garner, CPA, Clayton Southerland, and Katherine Landrum, 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, Mississippi Code Annotated (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 identified certain matters involving the internal control over receipt of funds, agency expenditures, financial reporting, and oversight activities that require the attention of the State Board of Barber Examiners and its management. Issues are noted below under the headings of **SIGNIFICANT DEFICIENCIES**, **SIGNIFICANT DEFICIENCIES & NONCOMPLIANCE WITH STATE LAW**, and/or **OTHER CONTROL DEFICIENCIES & NONCOMPLIANCE WITH STATE LAW**. A "control deficiency" exists when the design or operation of an internal control does not allow management or employees in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements on a timely basis. A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control that is important enough to merit attention by those charged with governance.

SIGNIFICANT DEFICIENCIES

Finding 1: Strengthen Controls for Segregation of Duties over Agency Assets.

Executive Summary: The State Board of Barber Examiners did not institute appropriate and proper segregation of duties among its personnel over the safeguarding of assets, such as activities involving the receipt of funds and reconciliation of bank and financial records.

Recommendation: We recommend the State Board of Barber Examiners implement policies and procedures to ensure proper segregation of duties over asset management. This could be accomplished by allowing a person independent of purchases to perform the reconciliation of bank and financial records. In addition, involvement by one or more board members would further support the proper segregation of duties.

Detailed Analysis: While reviewing internal controls over receipts and reconciliations of bank and financial records, we noted the following:

- The Director performed all the following procedures: authorized purchases, prepared checks, maintained physical custody of the checks, recorded deposits and expenditures into the Board's records, reconciled the bank statements to agency records, and entered and approved all transactions, including the receipt of goods, into MAGIC.
- One employee performed all the following procedures: received funds through the mail and in person, recorded the individual receipts into the Board's records, recorded the receipts on the bank deposit slips, and took deposits to the bank.

Good internal controls require the functions of processing, recording transactions, and maintaining custody of related assets be segregated as much as possible in order to ensure the assets are safeguarded against loss from

unauthorized use or theft. Failure to segregate these functions properly increases the possibility of errors and the potential for fraud and abuse.

SIGNIFICANT DEFICIENCIES & NONCOMPLIANCE WITH STATE LAW

Finding 2: Strengthen Controls to Ensure Compliance with State Law over Employee Leave.

Executive Summary: The State Board of Barber Examiners did not document or maintain records of employee hours worked or leave taken as required by state law. In addition, the Board did not timely enter employee leave taken into the Statewide Payroll and Human Resource System (SPAHRs). Lastly, the Board did not require written authorization and approval of employee leave taken.

Recommendation: We recommend that a forensic review be conducted to determine if employee leave should be adjusted to reflect actual leave taken. We also recommend the State Board of Barber Examiners strengthen controls over employee leave through the development and implementation of written policies and procedures for personal, medical, and compensatory leave; the agency utilize the use of time sheets and leave authorization forms to aid in the process of entering the leave into SPAHRs; and the Board members review leave taken by the executive director at each Board meeting.

Detailed Analysis: During our review of personal, major medical, and compensatory leave at the State Board of Barber Examiners we noted the following:

- One staff member had been employed for one year plus one week but SPAHRs showed no leave recorded for fiscal year 2017.
- An Administrative Assistant's SPAHRs record showed only one day each of Personal Leave and Medical Leave taken over a two year period, despite statements by the Assistant that she had been diagnosed for a serious illness and then undergone surgery and treatment during fiscal year 2017 (confirmed by the Executive Director).
- The Executive Director earned eighty (80) hours of Compensatory Leave over a ten (10) month period during which she took no Personal Leave or Medical Leave. SPAHRs also indicated she claimed eighty (80) hours of Personal Leave in the last two months of fiscal year 2017, and during onsite fieldwork she stated her overall leave record was justified. At that time she had also indicated there were no supporting records, which would be a violation of State law as outlined below.

Section 25-3-97(1), Miss. Code Ann. (1972) requires all state agencies to "keep accurate records of the leave accumulated and used by the officers and employees thereof." *Section 25-3-93(4)* states, "Employees are encouraged to use personal leave. Personal leave may be used for vacations and personal business and shall be used for illnesses of the employee requiring absences of one (1) day or less." In addition, Sections 25-3-92, 25-3-93 and 25-3-95 include specific definitions and requirements for compensatory, personal and medical leave, respectively.

Section 7.3.13 of the *Mississippi State Personnel Board Policy and Procedures Manual* (MSPB Policy and Procedures) states in part, "Time and leave record reporting should be entered into SPAHRs in a timely manner to ensure that records accurately reflect the State's liabilities and obligations."

Consistent with state laws and MSPB Policy and Procedures, good internal controls require written records of leave earned and used to avoid paying employees for time not worked. Failing to properly record leave results in an overstated leave balance in SPAHRs and an overstated liability for the costs of operating.

Finding 3: Strengthen Controls to Ensure Compliance with State Law over Travel.

Executive Summary: Multiple instances were noted in which reimbursements were made for travel without sufficient review procedures, documentation, authorization, and receipts. In one instance an overpayment was made to the Executive Director, and in two instances sales tax was improperly charged for hotel stays billed directly to the travel card.

Recommendation: We recommend the State Board of Barber Examiners strengthen controls over travel reimbursements by requiring proper documentation and authorization for each trip to comply with state law. In addition, we recommend a process of thorough review over the reimbursements, as well as board oversight.

Detailed Analysis: Based on testwork performed over thirty (30) travel vouchers, we noted the following:

- Overpayment of \$342.01 to the Executive Director who was paid twice for the same travel voucher.
- Overpayment of \$2.63 to an employee using the incorrect mileage rate of \$0.54 cents per mile instead of the correct rate of \$0.535 effective April 2017.
- Two (2) instances totaling \$21.84 in which state tax was paid on in-state hotel bills charged to the travel card, which is prohibited by Department of Finance and Administration (DFA) rules.
- Overpayment to a board member of \$7.00 on a \$60 airport parking reimbursement, supported by a receipt for \$53.
- One (1) instance in which a board member was reimbursed out-of-state airfare without a receipt to document the expenditure.
- One (1) instance of an unsigned travel voucher by the employee requesting reimbursement.
- One (1) instance of a signed travel voucher submitted by the employee without an approval signature.

Section 25-3-41, Miss. Code Ann. (1972), establishes guidelines for travel reimbursements of officers and employees of the State of Mississippi, and of any department, institution, board or commission. It also establishes that the Mississippi Department of Finance and Administration (DFA) shall promulgate rules and regulations regarding state travel policy.

1. Department directors will be responsible for ensuring compliance with Section 25-3-41 by providing adequate internal controls over employee travel.
2. Per Subsection 2.106, "Travel vouchers must be typed or completed in ink and signed by the traveler." In addition, "The form should be completely filled out and signed by the entity head or designee before submitting the form to the State Travel Office" and should include a signature that verifies all reimbursed expenses are actual and valid business expenses."
3. "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." An individual agency requesting reimbursements has the responsibility to maintain all documentation for audit purposes supporting rates reimbursed.
4. "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." Subsection 7.122(A) also states "When payment for in-state 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."

In addition, good internal controls dictate that adequate separation of duties be maintained over the areas of preparation, review, and approval of travel reimbursement claims.

Finding 4: Strengthen Controls to Ensure Compliance with State Law over Cash Receipts.

Executive Summary: In order to ensure that state assets (i.e. cash) are effectively and efficiently managed, timely and adequate supervisions and control of those assets must be implemented. We found the State Board of Barber Examiners did not regularly deposit funds (including cash, checks, and money orders) into the State Treasury within two (2) days of receipt as required by state law. Additionally, we found the State Board of Barber Examiners did not issue paper or electronic receipts to barbers for licensing and renewal payments as dictated by good internal controls.

Recommendation: We recommend the State Board of Barber Examiners strengthen controls over all payments received by recording and depositing funds daily and by issuing written and pre-numbered receipts for every license payment received.

Detailed Analysis: During our review of internal controls over cash receipts, we noted the following:

- Twelve (12) instances out of twenty-five (25), documentation showed that checks were not timely deposited to the Treasury (within two (2) business days). In four (4) of these twelve (12) instances, the checks were deposited six (6) to seven (7) days after the checks were recorded on the receipts log (ledger).
- In addition, timeliness deposits was consistently a problem in fiscal year 2017. In May and June 2017, deposits were made approximately every six (6) days on average, with an average of more than 50 checks or money orders taken to the bank per trip.
- The State Board of Barber Examiners did not issue receipts to barbers for licensing and renewal payments. Additionally, the State Board of Barber Examiners' software for barber licensing did not include an audit trail for receipts, as the payment date for renewal by licensees is not recorded in the system. Only the date of original licensing or anniversary date of renewal, along with the name of the licensee and license type, is tracked by the Board's software.

Section 7-9-21, Miss. Code Ann. (1972) requires state agencies to transfer monies deposited in agency clearing bank accounts to the State Treasury within two days and requires public funds to be deposited into the state treasury by the end of the next business day following the day that funds are collected. In addition, "At the request of any state agency, the State Fiscal Officer, with the advice and consent of the State Treasurer, may by regulation provide for other than daily deposits of accounts by that state agency. The State Fiscal Officer, with the advice and consent of the State Treasurer, shall determine the frequency and method of deposit for the agency."

Good internal controls require funds (cash, checks, money orders) to be deposited into an agency's bank account and entered in the agency's records on the day funds are received. Failure to deposit funds daily increases the risk of theft and/or misplacement of funds and could result in the loss of receipts and interest revenue to the state. In addition, good internal controls dictate receipts to customers should be issued in order to provide an adequate audit trail and ensure compliance with state laws.

OTHER CONTROL DEFICIENCIES & NONCOMPLIANCE WITH STATE LAW

Finding 5: Strengthen Controls to Ensure Compliance with State Purchasing Laws over Commodities.

Executive Summary: The auditors noted that State Board of Barber Examiners purchased goods prior to submitting purchase orders to DFA. State law requires agencies to issue purchase orders prior to purchase.

Recommendation: We recommend the State Board of Barber Examiners ensure compliance with state purchasing laws. Purchase orders should be written and submitted to Department of Finance and Administration (DFA), prior to the purchase of goods and services.

Detailed Analysis: During our review of commodity expenditures at the State Board of Barber Examiners, we noted the following:

- One (1) instance in which the purchase order was written and submitted to DFA thirty-two (32) days after the purchase/receipt of the goods and services.
- One (1) instance in which the purchase order was written and submitted to DFA sixty-one (61) days after the purchase/receipt of the goods and services.

Section 7-7-23, Miss. Code Ann. (1972), states in part, "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." In addition, "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 regulations could result in the purchase of unauthorized services, equipment, or materials.

Finding 6: Strengthen Controls to Ensure Compliance with State Laws for Board Minutes.

Executive Summary: the auditors noted that the State Board of Barber Examiners did not review, approve and make available to the public its board meeting minutes within 30 days of adjournment of the board meeting.

Recommendation: We recommend the State Board of Barber Examiners ensure compliance with State Laws governing the documentation of board meeting minutes. Board minutes State Board of Barber Examiners should be reviewed, approved, and made available to the public within thirty (30) days of meeting.

Detailed Analysis: During our review of board minutes over a twenty-two (22) month period for the State Board of Barber Examiners, we noted the following:

- For six (6) of the eighteen (18) board meetings, the approval of the minutes ranged between forty-nine (49) to one hundred twelve (112) days past the date of the board meeting.
- For five (5) of the eighteen (18) board meetings, the minutes were approved thirty-five (35) days past the date of the board meeting.

Section 25-41-11, Miss. Code Ann. (1972), states, "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."

Finding 7: Strengthen Controls to Ensure Full Compliance with Agency Bond Coverage Statute.

Executive Summary: The State Board of Barber Examiners did not hold a surety bond providing blanket coverage for all employees and board members. Good internal controls would require the Board to do so when interpreting the statute that relates to its bond coverage.

Recommendation: We recommend the State Board of Barber Examiners strengthen controls by obtaining a blanket surety bond to protect against (crime) theft for all employees and board members with significant financial responsibilities.

Detailed Analysis: The statute relating to the Board's bond coverage, *Section 73-5-3 of Miss. Code Ann. (1972)*, includes two requirements. The Barber Board complied with the first requirement to file a \$10,000 bond, as it maintains this amount to cover its Executive Director. However, the second requirement is for the board to make sufficient bond on all employees it considers "necessary to protect the interests of the barbers of the State." The Board has not met this requirement because it did not obtain blanket coverage for all employees and board members.

Prudent business practice dictates internal controls should be implemented through purchase of a blanket surety bond. State Board of Barber Examiners duties involve access to cash and other funds, authorization of transactions, custody of assets, and inspection of barber premises, without a blanket bond the Board could

End of Report



MISSISSIPPI BOARD OF BARBER EXAMINERS

February 5, 2019

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P.O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

Upon completion of the FY 2017 Financial Audit of The Mississippi Board of Barber Examiners, we respectfully submit to you our response and corrective action plan for each review finding.

AUDIT FINDING:

Finding 1. Strengthen Controls for Segregation of Duties over Agency Assets.

Response:

Being a small agency with only three employees in the office (including the Executive Director), it is harder to separate the duties and responsibilities between the employees for the work flow to move as quickly as possible, within the guidelines of approval levels for our agency. All of the work for the board is done in our office. When I, the director am out on meetings or other employees out sick or on vacation, this does limit the ability to separate duties when most must be done on a daily basis.

CORRECTIVE ACTION:

We have separated the duties as best for our agency within the guidelines of approval level. Some duties are only to be performed by the executive director who is responsible for the entire agency.

Finding 2. Strengthen Controls to Ensure Compliance with State Law over Employee Leave.

Response:

Our agency did not have time sheets (for full time employees) to be completed and turned in monthly for payroll to verify hours taken and earned.



Page 2:

Mississippi Board of Barber Examiners

CORRECTIVE ACTION:

We now have timesheets for part time and full time employees to submit for agency approval and payroll. After payroll is run, the leave is checked to insure correct balances for each employee. All corrections were made on this issue while the auditors were in our office and proof was given for audit records.

Findings 3: Strengthen Controls to Ensure Compliance with State Law over Travel.

Response:

All board members and employees were notified on not paying state tax on hotel rooms. Tax exempt status letters were given to each one for this proof to use when traveling in state.

Receipts must be kept and attached to travel or agency credit card statements before reimbursement can be processed.

All travel reimbursement forms must be signed and completed before submitting for payment.

Two employees will verify travel reimbursements before processing.

CORRECTIVE ACTION:

One employee or board member will verify each travel reimbursement along with the Executive Director for submission of payment.

Findings 4: Strengthen Controls to Ensure Compliance with State Law over Cash Receipts.

Response:

The deposits were made on a weekly basis for our office. Being special funds, this is not counted into the general fund monies. Unaware of the law for depositing all monies within two business days of receipts. Now all monies are being deposited with the state law guidelines and receipts given. Since our last audit twelve years, the law had changed and we were unaware of this.

We also keep a ledger for our agency to prove what type of license was paid for and the amount of money paid. This action is necessary for our budget process we must complete at the end of each physical year. There we do have two proof of cash receipts being received in our office.



Mississippi Board of Barber Examiners

Also the cash receipts are being entered into the MAGIC system with the state law guidelines.

CORRECTIVE ACTION:

All monies received in our agency have a receipt written when licenses are processed. Also deposits and cash receipts are being made into bank and DFA as per state law guidelines.

The bank statement will be balanced by the executive director who is responsible for agency actions.

Two employees have been trained to enter the cash receipts into Magic system. The executive director was the only one trained for three years.

Findings 5: Strengthen Controls to Ensure Compliance with State Purchasing Laws over commodities.

Response:

Only one person was trained to enter purchase orders and goods receipts into the MAGIC system. Products were ordered without a purchase order.

CORRECTIVE ACTION:

Two employees are being trained on entering purchasing orders and goods receipts.

All employees have been notified to get a purchase order number before ordering any goods to be in compliance with the state purchasing law.

When only three employees are in the office, some duties are and must be done by the same employee to insure timely records for work flow to continue daily.

Findings 6: Strengthen Controls to Ensure Compliance with State Laws for Recording and Availability of Board Minutes.

Response:

The Mississippi Board of Barber Examiners minutes were signed at the next board meeting. Unaware of the law that states they must be signed within thirty days (30). All minutes were in the monthly folders and available.



Page 4
The Mississippi Board of Barber Examiners

Corrective Action:

I, Debra Jones, the Executive Director, now am typing the minutes with a week of board meeting and mailing to board members for them to sign and return to be in compliance with state law.

Findings 7: Strengthen Controls to Ensure Full Compliance with the Agency Bond Coverage Statute.

Response:

The Mississippi Board of Barber Examiners part time inspectors do not handle money so they were never bonded. Only the executive director and one full time employee were bonded. Since our last audit twelve years ago, this new law has been passed for board members and employees to be bonded.

Corrective Action:

All full time and part time employees, plus board members have been bonded.

Sincerely,

A handwritten signature in cursive script that reads "Debra B. Jones".

Debra B. Jones
Executive Director

dbj

CC: Mr. Michael McBunch
President of the Mississippi Board of Barber Examiners