



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

July 19, 2018

Limited Internal Control and Compliance Review Management Report

Jess New, Executive Director
Mississippi Oil and Gas Board
500 Greymont Ave., Suite E
Jackson, Mississippi 39202-3446

Dear Mr. New:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi Oil and Gas Board for the Fiscal Year 2017. In these findings, the Auditor's Office recommends the Mississippi Oil and Gas Board:

1. Strengthen controls to ensure compliance with state laws over capital assets;
2. Strengthen controls to ensure compliance with state laws over purchasing;
3. Strengthen controls to ensure compliance with state laws over procurement card purchases; and
4. Strengthen controls to ensure compliance with state laws over travel reimbursement.

Please review the recommendations and submit a plan to implement them by August 2, 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, 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 Oil and Gas Board to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Oil and Gas Board throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue 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 Oil and Gas Board for the year ended June 30, 2017. The Office of the State Auditor's staff members participating in this engagement included Derrick Garner, CPA, Selena Davis, CPA, Brianna Dang, 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 internal control over financial reporting would not necessarily disclose all matters in 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 that require the attention of management. These matters are noted under the headings **OTHER CONTROL DEFICIENCY** 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 DEFICIENCY AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 1: Mississippi Oil and Gas Board Should Strengthen Controls to Ensure Compliance with State Laws over Capital Assets.

Executive Summary: Auditor noted that in one instance the invoice or receiving document for an asset was not signed by an employee notating the agency received the goods. It was also noted that in one instance the agency did not have proper documentation on file to support the purchase of a new asset.

Recommendation: We recommend the Mississippi Oil and Gas Board strengthen controls to ensure compliance with state purchasing laws over capital assets. 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. Lastly, documentation should be kept to support all purchases made.

Finding Detail: During our review of Capital Outlay and Capital Asset additions and deletions, the auditor noted the following:

- One (1) instance totaling \$24,562 in which there was no signature to denote the receipt of goods.
- One (1) instance in which agency did not have adequate documentation to support the addition of an asset.

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 the invoice and dates of receipt, inspection, and approval of the goods or services. Failure to document the date of receipt of goods and/or services could allow the agency to pay for goods and services not yet received.

Section 29-9-13, Miss. Code Ann (1972), requires auditors to reconcile invoices and records with the agencies' property inventories and to make a check or physical audit of the actual items or properties shown on the agency's inventories and related records. Failure to keep documentation to support assets purchased hinders the agency in being able to properly value the asset and record the assets in agency

records.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: Mississippi Oil and Gas Board Should Strengthen Controls to Ensure Compliance with State Laws over Purchasing.

Executive Summary: Multiple instances were noted in which invoices were paid for goods that were not properly documented as received and inspected prior to payment. State law mandates that goods and services should be properly inspected, approved, and documented prior to remitting payment of invoices. Auditor also noted the agency issued purchase orders without receiving the appropriate authorizations and that purchase orders were not obtained before receiving goods or services.

Recommendation: We recommend the Mississippi Oil and Gas Board strengthen controls to ensure compliance with state purchasing laws. 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. In addition, purchase orders should be issued and approved prior to the receipt of goods and services.

Finding Detail: During our review of fifteen (15) contractual service expenditures and fifteen (15) commodities expenditures at the Mississippi Oil and Gas Board, the following issues were noted:

- Eight (8) instances in which invoices were paid for goods or service that were not properly documented as received and inspected prior to payment totaling \$517.50 for contractual services and \$3,633.56 for commodities.
- One instance (1) totaling \$1,045.92 in which the commodities purchase order was not properly authorized.

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 the invoice and dates of receipt, inspection, and approval of the goods or services. Failure to document the inspection and approval of goods or services by the person receiving the goods or services results in noncompliance and could result in the payment of goods or services not yet received.

Section 7-7-23, Miss. Code Ann (1972), states that purchases made without the issuance of a purchase order shall not be deemed obligations of the state. Good internal controls should be in place to ensure that purchase orders are properly authorized prior to the ordering of goods or services. Failure to properly approve a purchase order prior to the date that goods and services are ordered could result in unauthorized purchases and the improper use of agency funds.

Finding 3: Mississippi Oil and Gas Board Should Strengthen Controls to Ensure Compliance with State Laws over Procurement Card Purchases.

Executive Summary: Multiple instances were noted in which purchases made with procurement cards were not signed by the cardholder or purchaser at the agency. The *State Procurement Card Guidelines* and the *State Procurement Manual* require that purchases made with procurement cards be confirmed in writing by the cardholder with a printed name and signature. Auditor also noted the agency did not have documentation that the procurement card statements had been reconciled or reviewed.

Recommendation: We recommend that the Mississippi Oil and Gas Board strengthen controls to ensure compliance with the *State Procurement Card Guidelines* by having cardholders sign or initial receipts related to procurement card purchases to ensure that only authorized procurement cardholders use the procurement card. The agency should also develop a process for reconciling and approving monthly credit card statements.

Finding Detail: During our review of fifteen (15) procurement card transactions, we noted the following:

- Three (3) instances in which the receipt did not have an approval signature or initial from the cardholder. In addition, the agency did not have formal documentation the statements had been reconciled or reviewed.
- Agency improperly coded procurement card expenditures using document type “KR” for vendor invoice instead of document type “PC” for vendor invoice – procurement card.

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 2(B) (4) of the *State Procurement Card Guidelines* 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. Failure of the cardholder to confirm the purchase by initialing/signing the receipts could allow improper payments to be made or purchases to be made by unauthorized personnel.

Section 1 (A) of the *State Procurement Card Guidelines* states that agencies will designate an appropriate individual to be responsible for review, verification, and approval of the cardholder statements. In addition, Section 2 (B) (10) states that upon the 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. Failure to review and approve the reconciliation of the credit card statement could result in unauthorized purchases and could allow errors or fraud to occur.

Good internal controls dictate expenditures be properly coded. Failure to code expenditures properly could result in errors or misstatement in the agency’s financial statements.

Finding 4: Mississippi Oil and Gas Board Should Strengthen Controls to Ensure Compliance with State Laws over Travel Reimbursement.

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 Oil and Gas Board strengthen controls over travel reimbursement to ensure compliance with applicable state rules and regulations. We additionally recommend that any amounts over paid or paid in violation of state law be reimbursed to the Agency.

Finding Detail: During our review of travel expenditures for fifteen (15) travel vouchers, we noted the following:

- One (1) instance in which the tip reimbursement exceeded the allowable amount set by DFA totaling \$1.40.
- One (1) instance in which an employee was not reimbursed for the actual cost of meals related to travel. Employee claimed reimbursement of \$20.00, but was reimbursed \$56.00.
- One (1) instance in which meals totaling \$30.00 claimed as an expense on the employee’s travel

voucher was included in the registration fee.

- Two (2) instances in which the conference literature or registration was not maintained by the agency to support meals associated with the conference.

Pursuant to *Section 25-3-41, Miss. Code Ann (1972)*, as stated in the MS State Travel Policy Rules and Regulations, the Department of Finance and Administration (DFA) shall promulgate and adopt reasonable rules and regulations which it deems necessary and requisite to effectuate economies for all expenses authorized and paid pursuant to this section. This section establishes guidelines for travel reimbursement of officers and employees of the State of Mississippi and of any department, institution, board or commission thereof.

Section 2.106 of the MS State Travel Policy Rules and Regulation states, "Meal tips should be included in the actual cost of the meal unless the inclusion of the tips causes the meals to exceed the Department of Finance and Administration's maximum daily meal reimbursement. If the daily meal limitations would be exceeded, then the tips can be separated and recorded as other expenses. All tips reported in this manner should be totaled for the day and not exceed 20% of the maximum daily meal reimbursement or the actual meal expense, whichever is less."

Section 8.124 of the MS State Travel Policy Rules and Regulations states, "Officers and employees of the state and political subdivisions shall be reimbursed the actual cost of meals incident to official travel, not to exceed the daily maximums for the specific location of assignment."

Section 5.115 of the MS State Travel Policy Rules and Regulations states that meals shall not be claimed as a separate item of expense on the travel voucher when included in the conference registration fee.

Failure to comply with these laws, rules and regulations related to travel expenditures could result in misstatements, errors, or fraud.

End of Report

State Oil and Gas Board



Board Members

DAVID A. SCOTT, Jackson
Chairman
JAMES H. HEIDELBERG, Pascagoula
Vice-Chairman
OWEN B. EMERSON, Hernando
CARROLL V. HOOD, Hazlehurst
LEW YODER, Laurel

State of Mississippi

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Telephone (601) 576-4900

JESSE S. NEW
Executive Director

FRANK SPENCER
Board Attorney

Compliance Review Findings

August 6, 2018

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

Dear Mr. White:

We have reviewed the Limited Internal Control and Compliance Review Management Report in reference to our fiscal year 2017 audit. Listed below are our responses and plans for corrective action.

Audit Finding: Strengthen controls to ensure compliance with State Laws over Capital Assets

Response: In the first instance, although the agency does sign documents for the vendor noting receipt of the items, agency staff was not given a copy of the signed receipt, but was instead given an additional copy which was not signed by agency staff noting the receipt of the goods.

In the second instance, the Field Director went to a C-Spire store because he was having problems with his phone. He was given two or three replacement phones before he was provided with a phone that worked properly. The Field Director asserts he was not given any document or receipt by the store during these transactions.

Corrective Action Plan:

- In the first instance, this was the purchase of a vehicle. After inspecting the vehicle and signing all documents for the vendor, responsible staff will make a copy of all documents before returning said documents to vendor.

Before submission to accounting, the individual responsible for receiving the goods is to verify the invoice/receipt has been signed and dated with the date of receipt of the goods or services. Agency staff responsible for payment of invoices will ensure all documents are properly signed and dated before processing for payment, if documents /receipts are not signed they will be returned to the responsible agency personnel for verification of receipt of goods or services.

In the second instance, all agency staff has been told to get a receipt for any purchases/exchanges for the agency and to sign the receipt and verify the goods or services.

- b. Mark Heath, Leah Puryear, Dianne Rayfield
- c. Immediately
- d. N/A

Audit Finding: Strengthen controls to ensure compliance with State Laws over Purchasing

Response: The agency concurs. In instances cited, agency staff did not sign nor date receipts/invoices or packing slips when the goods or services were received.

As to the \$1,045.92 purchase from Big 10 Tires, Jackson, prior to taking any vehicle in for service/repair a purchase order is generated which is to be taken and given to the vendor before they begin the work. Normally, we do not know the expense of the repair until the mechanics have had an opportunity to evaluate the vehicle. Once they notify agency staff of the issue and the cost to repair, approval was obtained verbally from the agency director for the vendor to perform the repairs; however, this was not followed up by written approval from the agency director for the repair over \$1,000.00.

Corrective Action Plan:

- a. Staff has been instructed to sign and date any packing slip showing receipt of the items, if one is available. If not, staff receiving the item and/or service is to sign and date the invoice with the date of receipt of the items/service. Agency staff responsible for payment of invoices will ensure all documents are properly signed and dated before processing for payment. If documents /receipts are not signed, they will be returned to the responsible agency personnel for verification of receipt of goods or services.

Additionally, any purchase greater than \$1,000.00 will have documentation showing approval by the agency director for the purchase/service.

- b. Mark Heath, Leah Puryear, Dianne Rayfield
- c. Immediately
- d. N/A

Audit Finding: Strengthen controls to ensure compliance with State Laws over procurement card purchases.

Response: The agency concurs. In the instances cited agency staff failed to initial or sign the receipts for procurement card transactions, nor was there any formal documentation that the statements had been reconciled. Agency staff was using the wrong document type for payment of the procurement card.

Corrective Action Plan: a. All future receipts will be appropriately signed or initialed by the cardholder and the statement will show reconciliation by accounting personnel prior to payment. Also, any receipts which have not been properly signed or initialed will not be processed until the cardholder has signed off on the purchases.

With the implementation of MAGIC the agency was unaware of the PC document type for the procurement card invoice payment. All future procurement card invoices will be paid using the correct document type. Until the audit we had not been told there was a PC document type for the procurement card or that we were using the incorrect document type.

- b. Leah Puryear, Dianne Rayfield, Jess New
- c. Immediately
- d. N/A

Audit Finding: Strengthen controls to ensure compliance with State Laws over Travel Reimbursement

Response: The agency concurs. There were deficiencies in the processing and payment of travel by staff.

Corrective Action Plan: Staff has been instructed to verify all information before submitting travel vouchers for reimbursement; to include - all lines total to the correct amount/to cross-check all totals, to ensure reimbursement is properly documented by the conference literature where applicable. Travel vouchers will be reviewed by the department supervisor prior to submission for payment.

The agency director will speak with those individuals who were incorrectly paid and request they reimburse the agency for the amount they owe.

- b. Leah Puryear, Dianne Rayfield
- c. Immediately
- d. N/A

If you have any questions, please let me know.



Jess New
Executive Director