



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

June 7, 2018

Limited Internal Control and Compliance Review Management Report

Pat Robertson, Executive Director
Public Employees' Retirement System of Mississippi
429 Mississippi Street
Jackson, MS 39201-1005

Dear Ms. Robertson:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Public Employees' Retirement System of Mississippi for the Fiscal Year 2017. In these findings, the Auditor's Office recommends the Public Employees' Retirement System of Mississippi:

1. Strengthen controls over recording employee leave;
2. Strengthen controls over procurement card purchases; and,
3. Ensure compliance with state regulations over agency bank accounts.

Please review the recommendations and submit a plan to implement them by June 21, 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 Public Employee's Retirement System of Mississippi to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Public Employees' Retirement System of Mississippi throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink, reading "Stephanie C. Palmertree", is written over the "Sincerely," text.

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 Public Employees' Retirement System of Mississippi for the fiscal year ended June 30, 2017. The Office of the State Auditor's staff members participating in this engagement included Thomas Wirt, CPA, Selena Davis, CPA, Virginia Anderson and Brianna Dang.

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 certain matters involving internal control over financial reporting and an instance of noncompliance that require the attention of management. These matters are noted under the headings **OTHER CONTROL DEFICIENCIES** and **INSTANCE 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 Recording Employee Leave Should Be Strengthened.

Executive Summary: Personal leave taken by agency employees was not properly recorded in the Statewide Payroll and Human Resources System (SPAHRS) based on our review of a sample of employee personal and medical leave balances. The Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Effective control activities dictate prompt review of leave balances in SPAHRS to ensure that personal and medical leave is entered correctly into the system.

Recommendation: We recommend the Public Employees' Retirement System of Mississippi strengthen controls over the leave entry process to ensure personal and medical leave hours taken are properly recorded in SPAHRS.

Finding Detail: The Public Employees' Retirement System of Mississippi enters personal leave hours taken by employees into SPAHRS from electronic employee leave reports. During testwork over 20 employees' leave balances for two months during fiscal year 2017, we noted two instances in which personal leave hours taken on agency leave reports did not agree with leave hours taken entered into SPAHRS for a total of 10 hours. In addition, we noted one instance in which medical leave was improperly entered into SPAHRS as personal leave for 3 hours.

Finding: Controls over Procurement Card Purchases Should Be Strengthened.

Executive Summary: Purchases made with procurement cards were not signed by the cardholder or purchaser at the agency based on our review of a sample of procurement card transactions. State regulations require purchases made with procurement cards to be confirmed in writing by the cardholder.

Recommendation: We recommend the Public Employees' Retirement System of Mississippi strengthen controls over procurement card purchases by requiring the purchaser to sign receipts or a listing of orders as confirmation of purchases made by the cardholder.

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 A of the *State Procurement Card Guidelines* issued by DFA requires individual procurement cards be used only by the named cardholder. Section 2(B)(4) of the *State Procurement Card Guidelines* requires a list of items purchased (either in the form of a detailed sales receipt or an order description) be reviewed and confirmed by the cardholder.

Based on testwork performed over 25 procurement card transactions, we noted 6 instances totaling \$576 in which documentation of purchases was not signed by the cardholder. In addition, we noted 4 instances totaling \$905 in which the receipt was signed by an employee other than the cardholder. 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.

INSTANCE OF NONCOMPLIANCE WITH STATE LAW

Finding: Bank Accounts Should Be Properly Authorized as Required by State Regulation.

Executive Summary: A bank account maintained by the Public Employees' Retirement System of Mississippi was not authorized by the State Treasurer and the Department of Finance and Administration as required by state regulation.

Recommendation: We recommend the Public Employees' Retirement System of Mississippi ensure bank accounts are authorized by the State Treasurer and the Department of Finance and Administration prior to opening an account as required by state regulation.

Finding Detail: Sub-Section 29.60.35 of the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual requires the State Treasurer and the Department of Finance and Administration to authorize all bank accounts maintained by a state agency.

During our review of bank accounts maintained by the Public Employees' Retirement System of Mississippi, we noted the agency opened a bank account that was not authorized by the State Treasurer and the Department of Finance and Administration. Failure to obtain authorization from the State Treasurer and the Department of Finance and Administration to open bank accounts circumvents the oversight authority vested in these two departments of state government and could allow improprieties to occur without being detected in a timely manner.

End of Report



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COMPLIANCE REVIEW FINDINGS

Stacey E. Pickering, State Auditor
Office of the State Auditor
State of Mississippi
P.O. Box 956
Jackson, MS 39205-0956

June 8, 2018

Dear Mr. Pickering:

Attached are our responses and corrective action plans for the Office of the State Auditor's (OSA) Limited Internal Control and Compliance Review Management Report on the Public Employees' Retirement System (PERS), dated June 7, 2018:

Other Control Deficiencies

Finding: Controls over recording employee leave should be strengthened.

Response: PERS agrees that controls should be strengthened over the recording of employee leave in SPAHRS. While the three instances cited in the report were corrected as soon as the errors were identified, PERS is evaluating and working to make the reporting between our internal process and SPAHRS more efficient.

Corrective Action Plan:

- a. Corrective Action Step One - PERS has implemented a monthly reconciliation process between the PERS leave system and SPAHRS.
- b. Responsible Person - Alison Vowell, Human Resources Director
- c. Anticipated completion date – The reconciliation process has been implemented.
- d. Corrective Action Step Two - Design and implement automated reporting/reconciliation between PERS internal SPAHRS.
- e. Responsible Person - Alison Vowell, Human Resources Director
- f. Anticipated completion date - development in process, no specific date identified.

Pat Robertson
Executive Director

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Finding: Controls over procurement card (P-card) purchases should be strengthened.

Response: As indicated in our initial management response, PERS has a structured control, use and approval process with regard to P-cards to ensure that all purchases are authorized and all goods and services purchased through the use of P-cards are received. With regard to the instances cited in the report totaling \$1,481, the purchases were authorized, approved, and made by the p-card holder who verified receipt of goods and services but did not sign the individual receipts. We agree that our processes and controls can be further strengthened through the additional requirement that the P-card holder signs all receipts.

Corrective Action Plan:

- a. Corrective Action – PERS has added the requirement that all receipts be signed by the P-card holder.
 - b. Responsible Person – Jan Cragon, Director of Finance
 - c. Anticipated completion date – The requirement has been implemented.
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Instance of noncompliance with State law

Finding: Bank Accounts should be properly authorized as required by state regulations.

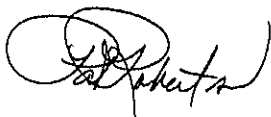
Response: PERS agrees with the instance cited in the report. With this exception, all other accounts have been authorized as required. This particular instance was an oversight and occurred as a result of new financial services being offered that enabled PERS to immediately deposit checks received in our office via scanning items for deposits. The account is a zero-balance account with nightly transfers to another PERS deposit account.

Corrective Action Plan:

- a. Corrective action - In response to the finding by OSA, PERS requested approval from the Department of Finance and Administration and the Office of the Treasurer on March 20, 2018 and received approvals from both on March 23, 2018.
- b. Responsible Person – Jan Cragon, Director of Finance
- c. Anticipation completion data – completed as of March 23, 2018.

Thank you for the recommendations stemming from your internal control and compliance review. PERS endeavors to ensure that trust fund transactions are always accurate, complete and appropriate, and welcomes the opportunity to further enhance and strengthen our operating procedures. Please let me know if you have questions or need additional information.

Sincerely,



Pat Robertson
Executive Director