



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

September 4, 2019

Limited Internal Control and Compliance Review Management Report

Andy Gipson, Commissioner
Mississippi Department of Agriculture & Commerce
121 North Jefferson St,
Jackson, MS 39201

Dear Mr. Gipson:

Enclosed for your review are the Limited Internal Control and Compliance Review findings for the Mississippi Department of Agriculture & Commerce (MDAC) for the Fiscal Year 2018. In these findings, the Auditor's Office recommends the MDAC:

1. Strengthen Controls to Ensure Compliance with State Law & Agency Policy Related to Bank Accounts;
2. Strengthen Controls to Ensure Compliance with State Law & Fleet Management Policy Related to Purchasing;
3. Controls Over Subsidies, Loans, and Grants Should be Strengthened;
4. Ensure Compliance with State Law Over Reimbursement for Travel Expenditures; and
5. Ensure Compliance with State Law Over Receipt of Funds.

Please review the recommendations and submit a plan to implement them by September 18, 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, 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.

9/4/2019

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

Sincerely,



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

The Office of the State Auditor (OSA) has completed its Limited Internal Control and Compliance Review of the Mississippi Department of Agriculture & Commerce (MDAC) for the fiscal year ending June 30, 2018. The Office of the State Auditor's staff members participating in this engagement included Derrick Garner, CPA; JT Newell, CPA; Veronica Funchess; 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 Mississippi Code Annotated (1972) §7-7-211, 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.

A *deficiency in internal control* 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In performing our review, we noted certain matters involving internal control over financial reporting that require the attention of management. These matters are noted under the headings: **INSTANCE OF NONCOMPLIANCE WITH STATE LAW AND OTHER CONTROL DEFICIENCY** and **OTHER CONTROL DEFICIENCY**.

In addition, while performing our review, we noted certain instances of noncompliance with State Law that require the attention of management. These matters are noted under the heading **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**.

INSTANCE OF NONCOMPLIANCE WITH STATE LAW AND OTHER CONTROL DEFICIENCY

Finding 1: Strengthen Controls to Ensure Compliance with State Law & Agency Policy Related to Bank Accounts.

Executive Summary: Bank reconciliations could not be effectively verified, and reporting of the Public Depositor Report at year end was untimely. Additionally, petty cash accounts were being used for travel reimbursements.

Recommendation: Mississippi Department of Agriculture and Commerce (MDAC) strengthen controls over bank accounts to ensure timely submission of required reporting and ensure documentation of reconciliations are being performed properly. Additionally, we recommend the agency strengthen controls over the review and approval of petty cash transactions to mitigate any chance of misuse and/or abuse of the account.

Detailed Analysis: During our review of the (MDAC) nine (9) bank accounts, the auditor noted the following:

- Nine (9) instances in which the Public Depositor Annual Report was not submitted to Treasury within 30 days of fiscal year end. The report was submitted on average eight days late.

- Ten (10) instances within the first quarter of fiscal year 2018 in which the Purchase Requisitions were not filled out by Agency personnel.
- Five (5) instances in which Travel Expenses were paid out of petty cash in the total amount of \$220.31.
- Six (6) instances in which a cash balance as of month end was not provided to determine if the reconciliation was properly performed.
- Eight (8) instances in which the review of the reconciliation could not be verified.

Section 27-105-5(6)(b), Mississippi Code Annotated (1972) requires a public depositor to notify the State Treasurer, 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.

As stated in the MDAC's *Petty Cash Procedures*, "Once expense is incurred, employee will fill out a purchase requisition giving justification for the expense. Purchase requisition is to be signed by supervisor or appropriate designee and receipt attached."

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 that reconciliations between bank statements and agency records should be performed and reviewed to ensure all monies are accounted for.

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 receive and maintain appropriate supporting documentation can lead to fictitious transactions and misappropriated assets.

Finding 2: Strengthen Controls to Ensure Compliance with State Law & Fleet Management Policy Related to Purchasing.

Executive Summary: Though the accounting department pays invoices in a timely manner from their receipt of the invoice, excessive delays in delivery of invoice by specific divisions to the accounting department cause the late payment of invoices from the date of the invoice. It was also noted that employees were purchasing higher octane gasoline for state vehicles and inconsistently inputting odometer readings at the time of purchase.

Recommendation: Mississippi Department of Agriculture and Commerce (MDAC) should strengthen controls to ensure compliance with State Laws related to purchasing by making sure individual divisions submit invoices to the accounting department in a timely manner and reinforce that proper policies are followed by employees in regards to fuel purchases.

Detailed Analysis: During our review of 30 contractual and 30 commodity expenditures at the MDAC, we noted:

- Nine (9) instances in which the payments were not made within 30 days after receipt of the invoice. Late payments ranged from 34 to 132 days after the invoice date.
- Four (4) instances in which the vehicle operator purchased fuel other than regular unleaded or diesel for a total amount of \$106.59.
- Thirteen (13) instances in which the Odometer reading per the fuel man statement is out of sequence.

Section 31-7-303, Mississippi Code Annotated (1972), “The requisition for payment of an invoice submitted to a public body and required by law to be filed with the State Fiscal Management Board shall be filed with the State Fiscal Management Board not later than thirty (30) days after receipt of the invoice and receipt, inspection and approval of the goods or services, except that in the case of a bona fide dispute the requisition for payment shall contain a statement of the dispute and authorize payment only in the amount not disputed.” Within the Mississippi Accountability System for Government Information and Collaboration (MAGIC), payment requests are filed with Department of Finance and Administration (DFA) when an agency releases the payment in MAGIC, which routes the payment request to DFA for approval via electronic workflow.

DFA Fleet Management’s *Fleet Manual, Section 6.102* states, “Gasoline purchases shall be obtained using the state-approved fuel access cards from vendor facilities that accept the state-approved Fuel Access Cards. Only regular unleaded gasoline or diesel from self-service pumps should be used. No higher-octane gas is to be purchased. Each vehicle shall be issued a state-approved Fuel Access Card that must remain in the vehicle at all times. Employees, who are assigned vehicles, shall be issued a personal identification number (PIN) that is to be kept separate from the card. When using this card, always key in the current exact odometer reading.”

Failure to submit payments within 30 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 comply with the Fleet manual could result in fraudulent gas purchases.

OTHER CONTROL DEFICIENCY

Finding 3: Internal Controls Over Subsidies, Loans, and Grants Should be Strengthened.

Executive Summary: Signed copies of written agreements were not able to be presented at the time of request.

Recommendation: Mississippi Department of Agriculture and Commerce (MDAC) should strengthen controls related to the record and documentation of Memorandum of Understanding’s (MOU) to certify that adequate and proper services are being delivered.

Detailed Analysis: During our review of thirty (30) MDAC subsidies, loans, and grants expenditures, the auditor noted four (4) instances in which a signed copy of the MOU was not provided by MDAC. All Promotion Boards, such as Rice, Soybean, and Corn Promotion Board, are required to complete the MOU in order for MDAC to transfer funds from the Promotion Boards for agriculture assessments performed.

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 that signed copies of agreements and contracts be kept on file by administrative and accounting personnel.

Failure to maintain signed agreements allows the opportunity for one or more parties to perform inadequate or lesser quality work than agreed upon, causing the agency to waste time and taxpayers dollars.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 4: Ensure Compliance with State Law Over Reimbursement for Travel Expenditures.

Executive Summary: Unallowable travel expenses were billed to the state and approved for payment without adjustments.

Recommendation: Mississippi Department of Agriculture and Commerce (MDAC) should ensure compliance with state laws and rules and regulations set forth by the Mississippi Department of Finance and Administration over the reimbursement of travel expenditures.

Detailed Analysis: During our review of sixty (60) Travel expenditures, we noted the following instances:

- Two (2) instances in which agency paid state and local taxes for in state lodging (hotel) expense for a total amount of \$71.97.
- One (1) instance in which travel expenditure listed on lodging (hotel) receipt is not an allowable expense (Incidental – late checkout) in the amount of \$50.00.

Section 27-65-1059a, Mississippi Code Annotated (1972), states, "...state agencies are exempt from state sales tax. This section provides that sales of tangible personal property or services made to United State Government, the State of Mississippi and its departments, institutions, counties and municipalities or departments or school districts of said counties and property or charge for services must be sold directly to, billed directly to and paid for directly by the exempt entity."

Rules set out by the Department of Finance and Administration's (DFA) Office of Purchasing, *Travel & Fleet Management's (OPTFM) Travel Card Guidelines Policy & Procedures Manual* Section 110 states, "The following types of expenses are allowable ...4. Lodging (room only, no incidental expenses allowed)..."

Failing to comply with state travel laws, rules and regulations could result in improper or unauthorized payments to employees for reimbursement of travel expenses.

Finding 5: Ensure Compliance with State Law Over Receipt of Funds.

Executive Summary: Funds received by the Mississippi Department of Agriculture and Commerce (MDAC) were not timely deposited into the State Treasury.

Recommendation: Mississippi Department of Agriculture and Commerce should ensure compliance with state laws related to cash receipts by efficiently processing and depositing funds timely as they are received.

Detailed Analysis: During our review of thirty (30) cash receipts at the MDAC, we noted four (4) instances in which deposits to the State Treasury were not submitted within two business days of receipt of funds. Late deposits ranged from three to seven business days after receipt of funds.

Section 7-9-21, Mississippi Code Annotated (1972) states, "...funds shall be deposited in the State Treasury by the end of the next business day following the day that such funds are collected."

Failure to deposit receipts daily increases the risk of theft and/or misplacement of funds and noncompliance with State law.

End of Report



**STATE OF MISSISSIPPI
DEPARTMENT OF AGRICULTURE AND COMMERCE**

ANDY GIPSON
COMMISSIONER

September 18, 2019

COMPLIANCE REVIEW FINDINGS

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

Dear Mr. White:

The following is our response to the limited internal control and compliance review findings for the Fiscal Year 2018.

AUDIT FINDINGS:

1) Strengthen Controls to Ensure Compliance with State Law & Agency Policy Related to Bank Accounts

Executive Summary: Bank reconciliations could not be effectively verified, and reporting of the Public Depositor Report at year end was untimely. Additionally, petty cash accounts were being used for travel reimbursements.

The Department of Agriculture and Commerce concurs with these findings and offers the following response and corrective action plan:

Response:

- a. The Department of Agriculture reconciles all bank accounts on a monthly basis and acknowledges that six instances occurred in which the cash balance at month end could not be verified. The Director of Administration receives a copy of each bank statement monthly and reviews them but there isn't a signature to verify the action.
- b. The Department strives to submit reports timely but acknowledges that the FY2018 Public Depositor Report was submitted 8 days late.

- c. Although all petty cash reimbursements were approved by the employee's supervisor, the Department acknowledges that purchase requisitions weren't always attached.
- d. The Department does not make it a practice to pay travel expenses out of Petty Cash. The five instances each had unique circumstances that did not immediately present as being travel related; however four of these expenses should have been reviewed more closely when processed for payment. The other expense was an unusual circumstance involving reimbursement to an employee for the payment of UBER while on a travel event. The Department did not consider the travel category for this payment because no other expenses were associated with this event.

In an effort to strengthen these controls, the Department offers the following corrective action plan:

Corrective Action Plan:

- a. The Department has already implemented the practice of verifying bank reconciliations by signature of Joette Pickle, the Director of Administration, on all bank statements, as well as initialing the month end bank balance on the check register. This action will replace the previous practice of submitting copies of the statements to the Director.
- b. The Public Depositor report for FY19 was submitted timely and the Department will submit all future reports promptly.
- c. It is the Department's policy to require requisitions with all petty cash reimbursement requests and we will ensure that future reimbursements will have such documentation. The Department will conduct comprehensive training for its staff on this and other policies. We anticipate completing this action within six months. The Department is also meeting with a consultant to update our policy and procedure manuals and we anticipate completing this project within one year.
- d. The Department understands that these instances should have been considered travel and all future expenses related in any way to travel will be processed through the travel reimbursement process. Comprehensive training for staff will be conducted on this and other policies within six months.

2) **Strengthen Controls to Ensure Compliance with State Law & Fleet Management Policy Related to Purchasing**

Executive Summary: Though the accounting department pays invoices in a timely manner from their receipt of the invoice, excessive delays in delivery of invoice by specific divisions to the accounting department cause the late

payment of invoices from the date of the invoice. It was also noted that employees were purchasing higher octane gasoline for state vehicles and inconsistently inputting odometer readings at the time of purchase.

The Department of Agriculture and Commerce concurs with these findings and offers the following response and corrective action plan:

Response:

- a. While all invoices but one were paid by the Accounting Division within accordance of DFA policies, the Department recognizes that some invoices were not delivered in a timely manner to be processed for payment. In some cases this was due to a disagreement involving the goods or services invoiced.
- b. The Department's Fleet Management Director receives notification from Fleetcor Technologies any time a restricted fuel is purchased. The Fleet Management Director then contacts the employee to make sure they are aware of the restriction so as not to repeat it; the conversation is also documented.
- c. The Department's Fleet Management Director receives notification from Fleetcor Technologies any time an odometer reading is entered out of sequence. The Fleet Management Director then contacts the employee to get an explanation of the error and then makes an exception into the MAGIC system as required by DFA's Fleet Management policy.

In an effort to strengthen these controls, the Department offers the following corrective action plan:

Corrective Action Plan:

- a. The Department will conduct comprehensive training for its staff on this and other policies. We anticipate completing this action within six months. The Department is also meeting with a consultant to update our policy and procedure manuals and we anticipate completing this project within one year. Additionally, the Accounting Division will develop a form to attach to all invoices that have not been submitted timely in order to document the issue of untimely submission. We anticipate completing this process within six months.

3) **Internal Controls over Subsidies, Loans, and Grants Should Be Strengthened**

Executive Summary: *Signed copies of written agreements were not able to be presented at the time of request.*

The Department of Agriculture and Commerce concurs with these findings and offers the following response and corrective action plan:

Response:

The Department acknowledges that written agreements for the Commodity Boards were not signed for this period at the proper time.

In an effort to strengthen these controls, the Department offers the following corrective action plan:

Corrective Action Plan:

The Commodity Board written agreements for FY20 have already been secured and the Director of Administration has added a recurring reminder to ensure that these agreements are updated before each new fiscal year begins.

4) **Ensure Compliance with State Law Over Reimbursement of Travel Expenditures**

Executive Summary: Unallowable travel expenses were billed to the state and approved for payment without adjustments.

The Department of Agriculture and Commerce concurs with these findings and offers the following response and corrective action plan:

Response:

The Department is aware that taxes and incidentals are not allowable charges on the travel card. These three instances were oversights.

In an effort to strengthen these controls, the Department offers the following corrective action plan:

Corrective Action Plan:

The Department will conduct comprehensive training for its staff on this and other policies. We anticipate completing this action within six months. The Department is also meeting with a consultant to update our policy and procedure manuals and we anticipate completing this project within one year.

5) **Ensure Compliance with State Law Over Receipt of Funds**

Executive Summary: Funds received by the Mississippi Department of Agriculture & Commerce were not timely deposited into the State Treasury.

The Department of Agriculture and Commerce concurs with these findings and offers the following response and corrective action plan:

Response:

The Department recognizes that deposits are supposed to be submitted within two business days and acknowledges that this did not occur in four instances out of thirty test samples.

In an effort to strengthen these controls, the Department offers the following corrective action plan:

Corrective Action Plan:

We have tasked additional staff to ensure that all deposits are made within the required time frame. The Department will conduct comprehensive training for its staff on this and other policies. We anticipate completing this action within six months. The Department is also meeting with a consultant to update our policy and procedure manuals and we anticipate completing this project within one year.

We trust this information is sufficient, but should you need further information or have any questions, please feel free to call us. The Department of Agriculture & Commerce appreciates the efforts that are put forth by your staff to assist us with compliance.

Sincerely,

A handwritten signature in dark ink, appearing to read "Andy Gipson", with a long horizontal flourish extending to the right.

Andy Gipson

Commissioner of Agriculture & Commerce