



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
Shad White
AUDITOR

June 26, 2020

Limited Internal Control and Compliance Review Management Report

Jacqueline Turner, Executive Director
Mississippi Department of Employment Security
1235 Echelon Parkway
Jackson, MS 39213

Dear Ms. Turner:

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

1. Strengthen Controls to Ensure Compliance with State Laws over Bank Accounts and Cash Receipts;
2. Strengthen Controls to Ensure Compliance with State Laws and Regulations over Procurement Card Purchases;
3. Strengthen Controls over Capital Assets;
4. Strengthen Controls over Travel Reimbursements; and
5. Ensure Compliance with State Laws and Regulations over Employee use of Personal and Major Medical Leave.

Please review the recommendations and submit a plan to implement them by July 17, 2020. 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.

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I hope that you find our recommendations enable MDES to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of MDES 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". The signature is written in a cursive style with a large initial 'S' and a stylized 'P'.

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 Employment Security for the fiscal year ending June 30, 2018. The Office of the State Auditor's staff members participating in this engagement included Ashley Jolly, CPA, Virginia Anderson, Phillip Chu, CPA, Buck Jenkins, CPA, and Dana McMorris.

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.

In performing our review, we noted certain matters involving internal controls over financial reporting and instances of noncompliance with state laws that require the attention of management. These matters are noted under the heading **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 AND INSTANCES OF NONCOMPLIANCE WITH STATE LAWS

Finding 1: Agency Should Strengthen Controls to Ensure Compliance with State Laws over Bank Accounts and Cash Receipts.

Applicable State Laws and Control Deficiencies: *Section 7-9-21, Mississippi Code Annotated (1972)* and *Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual, Section 13.10.20* requires agencies to deposit funds into the state treasury by the end of the next business day following the day of collection.

Section 7-9-12, Mississippi Code Annotated (1972) allows agencies to request authorization from the Department of Finance and Administration (DFA) and the Office of State Treasurer (Treasury) to open a bank account to serve as a collection or clearing account. Each account established shall have a maximum balance to be fixed by Treasury. Periodically, DFA will disburse a list of approved accounts in which agencies will review and verify the information is correct and/or indicate changes that need to be made. Requested changes must be made by the agency's Executive Director and approved by DFA's Executive Director and the State Treasurer.

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.

MAAPP manual, Section 19.10.10, requires state agencies to reimburse employees, contract workers, and board members for state business travel through the *Statewide Payroll and Human Resource System (SPAHRs)*.

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. The Control Activity Principal states, “The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.”

Finding Detail: During our review of 30 cash receipts at the Mississippi Department of Employment Security, we noted five instances in which cash receipts were not deposited in a timely manner. Also, during our review of the Mississippi Department of Employment Security bank accounts, we noted the following discrepancies:

- Four out of 14 bank accounts were not listed on the Department of Finance and Administration (DFA) form 29.60.35, with authorization by DFA and Treasury;
- Three out of 14 bank accounts showed a balance as of June 30, 2018 above the maximum amount set by DFA and Treasury;
- The Public Depository Annual Report was submitted late, and the depository listing on the report was incomplete; and
- Four instances out of 30 unusual transactions tested (checks were written to cash or employees) were not adequately supported with proper documentation and were not expensed through the proper channels as dictated by DFA.

Failure to report all public depositories to Treasury, funds may result in funds not being properly collateralized as required by state law. Also, funds not deposited timely to Treasury increases the risk of theft and/or misappropriations of funds, while failing to maintain bank balances as authorized by the Department of Finance and Administration and Office of Treasurer may result in a potential loss of interest revenue to the State.

Recommendation: We recommend the Mississippi Department of Employment Security strengthen controls over bank accounts and cash receipts to ensure compliance with state laws and regulations governed by DFA and Treasury. Deposits of cash receipts into Treasury should be made within two business days following receipt. The Public Depository Annual Report should be submitted within thirty (30) days of the end of the fiscal year with complete and accurate bank account information, and bank account balances should not exceed the maximum balance authorized by DFA and Treasury. Lastly, we recommend the agency follow policies outlined in DFA’s MAAPP manual when writing checks to employees, board members, or contract workers using public funds.

Repeat Finding: No.

Finding 2: Agency Should Strengthen Controls to Ensure Compliance with State Laws and Regulations over Procurement Card Purchases.

Applicable State Laws and Control Deficiencies: *Section 31-7-9, Mississippi Code Annotated (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 31-7-12, Miss Code Ann. (1972) (1) states, “all agencies shall purchase commodities at the state contract price from the approved source, unless approval is granted by the Department of Finance and Administration to solicit purchases outside the terms of the contract; (2) states, “governing authorities may purchase commodities approved by the Department of Finance and Administration from the state contract

vendor, or from any source offering the identical commodity, at a price not exceeding the state contract price established by Department of Finance and Administration for such commodity, without obtaining or advertising for competitive bids.”

Mississippi Procurement Card Guidelines, a program coordinator’s responsibilities are, “ensure cardholder transaction log and information are complete and accurate. Ensure cardholders have receipts/invoices for purchases made; if no receipt/invoice, the program coordinator should have cardholder complete Procurement Card Missing Document Affidavit Form.”

Mississippi Procurement Card Guidelines, the section for Contractual Services, "Please do not give the card number to a business for a recurring monthly charge. You may use the card for payment of these services as long as you are invoiced and have control over the payment process. We do not want anyone to have the ability to charge our card monthly without prior knowledge."

Mississippi Procurement Card Guidelines, section for obtaining procurement card, "In order to obtain a Procurement Card an employee must complete the Cardholder Application/Agreement found on the Office of Purchasing and Travel website. The application must be filled out completely and signed by the Cardholder, as well as the Program Coordinator."

Finding Detail: Auditors selected two (2) months, September 2017 and March 2018, out of 12 statements, and tested 100% of procurement card transactions. During the review, we noted following discrepancies:

- Three (3) instances in which: invoices were not attached to the purchase, the purchases were set as automatic monthly drafts, and purchases were not recorded on the procurement log;
- Eight (8) instances in which no completed authorization form was on file for personnel assigned a procurement card; four (4) employees were retired, and four (4) were active; and
- Four (4) instances in which the agency purchased state-contracted items through a non-state contracted vendor at an increased price.

Failure to comply with the requirements of the *Mississippi Procurement Manual* and *Mississippi Procurement Card Guidelines* governing the Procurement Card program could allow for improper payments or purchases made by unauthorized personnel. Additionally, purchases of state-contracted items from a non-state contracted vendor resulted in increased costs to the agency. Lastly, recurring charges without prior approval or documentation is a policy violation that could result in excessive costs to the agency for services no longer used.

Recommendation: We recommend the Mississippi Department of Employment Security strengthen controls to ensure compliance with the Department of Finance and Administration (DFA) *Mississippi Procurement Manual* and *Mississippi Procurement Card Guidelines*, as well as state laws for procurement card purchases. Furthermore, we recommend the agency maintain on file all approved documentation for authorized cardholders.

Repeat Finding: No.

OTHER CONTROL DEFICIENCIES

Finding 3: Agency Should Strengthen Controls over Capital Assets.

Control Deficiency: *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 supervisory approval from personnel independent of inventory management should be obtained prior to the disposal of capital assets.

Finding Detail: During our review of 18 capital asset deletions for the Mississippi Department of Employment Security, we noted two instances in which the disposal form did not have documentation of approval by an employee independent of the inventory process before the disposal of the assets.

Failure to have proper approval over asset deletions may result in capital assets being misplaced or stolen.

Recommendation: We recommend the Mississippi Department of Employment Security strengthen controls over the approval process for the deletion of capital assets. Asset deletions should be appropriately approved and documented as dictated by strong internal controls.

Repeat Finding: No.

Finding 4: Agency Should Strengthen Controls over Travel Reimbursements.

Control Deficiencies: Rules established by the Department of Finance and Administration’s (DFA) Office of Purchasing, Travel & Fleet Management’s (OPTFM) *Travel Policy Rules & Regulations* set out the following requirements:

- *Section 3.107 A states, “Each state agency subject to oversight by the Bureau of Fleet Management shall use the Trip Optimizer System developed and administered by the Development of Finance and Administration...., in computing the optimum method and cost for travel by state officers and employees using a motor vehicle where the travel will exceed one hundred (100) miles per day and the officer or employee is not driving a state-owned or state leased vehicle that has been dedicated or assigned to the officer or employee.”*
- *Section 2.106 states, “Meals shall not be claimed as expenses if the meals are included in the conference registration fee.”*

DFA’s *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual, Section 19.20.10, states the following general guidelines for the completion of a travel voucher.

- The travel voucher must be verified, which means the verifier has confirmed that all appropriate receipts are attached, the trip optimizer has been completed correctly, and the total to be paid is correct.

Finding Detail: During our review of 30 travel expenditures at the Mississippi Department of Employment Security during Fiscal Year 2018, we noted the following discrepancies:

- One (1) instance in which the traveler did not utilize the Trip Optimizer for mileage traveled over 100 miles to a conference in a rental car.
- Two (2) instances in which meal expenses were improperly reimbursed (meals were included with the conference registration fees).

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

Recommendation: We recommend the Mississippi Department of Employment Security ensure compliance with state laws, rules, and regulations set forth by the Department of Finance and Administration.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAWS

Finding 5: Ensure Compliance with State Laws and Regulations over Employee use of Personal and Major Medical Leave.

Applicable State Laws: *Section 25-3-93, Mississippi Code Annotated (1972)* states, “All employees and appointed officers of the State of Mississippi, who are employees as defined in *Section 25-3-91*, shall be allowed credit for personal leave as computed in this section.”

Section 25-3-95 (2)(a), Mississippi Code Annotated (1972) states, “Major medical leave may be used for the illness or injury of an employee or member of the employee’s immediate family as defined in subsection (3) of this section, only after the employee has used one (1) day of accrued personal or compensatory leave for each absence due to illness, or leave without pay if the employee has no accrued personal or compensatory leave. In addition, the code states major medical leave may be used, without prior use of personal leave, to cover regularly scheduled visits to a doctor’s office or a hospital for the continuing treatment of a chronic disease, as certified in advance by a physician.”

Section 25-3-97(1), Miss Code Ann. (1972) requires organizations to maintain accurate records of the leave accumulated and used by the officers and employees thereof.

Finding Detail: During our review of 60 employee records at the Mississippi Department of Employment Security for Personal, Major Medical, and Compensatory leave during the fiscal year 2018, we noted the following.

- One (1) instance of personal leave was overstated per the leave reconciliation on the employee timesheet.
- Two (2) instances in which employees did not record one day of personal leave, compensatory leave, or leave without pay before recording medical leave.
- One (1) instance of timesheet record not matching record in *Statewide Payroll and Human Resource System (SPAHRs)*.

Failure to maintain proper records of employee leave could lead to the misstatement of leave balances in SPAHRs.

Recommendation: We recommend the Mississippi Department of Employment Security implement policies and procedures over the maintenance and recording of employee leave in *Statewide Payroll and Human Resource System (SPAHRs)* to ensure compliance with state laws and regulations.

Repeat Finding: No.

Other Recommendations by Office of the State Auditor

No other recommendations were noted during the Limited Internal Control and Compliance Review Findings for the Mississippi Department of Employment Security for the Fiscal Year 2018.

End of Report



Mississippi Department of Employment Security

Tate Reeves
Governor

Jacqueline A. Turner
Executive Director

July 17, 2020

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

Dear Mr. White:

In accordance with your correspondence dated June 26, 2020, the Mississippi Department of Employment Security (MDES) is providing the following responses and corrective action plans to the financial audit findings for the fiscal year ended June 30, 2018.

AUDIT FINDINGS

Finding 1 – Agency Should Strengthen Controls to Ensure Compliance with State Laws over Bank Accounts and Cash Receipts

Response: MDES acknowledges this finding and has put into place steps necessary to ensure the agency complies with all bank account and cash receipt laws and regulations.

Corrective Action Plan:

- A. Specific steps to be taken to correct the situation
 - MDES has closed the accounts that were not on file at the Department of Finance and Administration
 - MDES has increased the maximum balances on file with DFA for two of the instances noted. In the third instance, MDES has closed the account.
 - Controls around travel paid via agency bank account have been strengthened to ensure compliance with State of Mississippi travel rules.
- B. Contact Person: Tyler Berch, Business Management
- C. Anticipated Completion Date for Corrective Action: Corrective action has been implemented.
- D. There are no reasons why corrective action is unnecessary.

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Executive Director

Finding 2 – Agency Should Strengthen Controls to Ensure Compliance with State Laws and Regulations over Procurement Card Purchases

Response: MDES acknowledges this finding and has put into place steps necessary to ensure the agency complies with all procurement card laws and regulations.

Corrective Action Plan:

- A. MDES has put into place procedures to ensure full compliance regarding procurement card purchases.
 - MDES refers to the State of Mississippi office supply contract and Mississippi Industries for the Blind to determine if requested items are available and ensures that prices of items unavailable on state contracts do not exceed the state contract prices.
 - MDES has strengthened its procedures to ensure that transaction logs are more accurate.
 - MDES has strengthened its control over recurring purchases.
 - MDES has updated its cardholder agreement forms for all users.
- B. Contact Person: Danny Lynch, Procurement
- C. Anticipated Completion Date for Corrective Action: Corrective action has been implemented.
- D. There are no reasons why corrective action is unnecessary.

Finding 3 – Agency Should Strengthen Controls over Capital Assets

Response: MDES acknowledges this finding and has put into place steps necessary to strengthen internal controls over asset deletions.

Corrective Action Plan:

- A. MDES has put into place a control to have asset deletion forms signed by management level employees.
- B. Contact Person: Danny Lynch, Procurement
- C. Anticipated Completion Date for Corrective Action: Corrective action has been implemented.
- D. There are no reasons why corrective action is unnecessary.

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Finding 4 – Agency Should Strengthen Controls over Travel Reimbursements

Response: MDES acknowledges this finding and put into place steps necessary to ensure the agency complies with all State of Mississippi travel rules and regulations.

Corrective Action Plan:

- A. Specific steps to be taken to correct the situation -
MDES has strengthened the review procedures by travel staff in the business department to ensure that proper forms are submitted and that meals are not reimbursed when there is a conference meal provided.
- B. Contact Person: Tyler Berch, Business Management
- C. Anticipated Completion Date for Corrective Action: Corrective action has been implemented.
- D. There are no reasons why corrective action is unnecessary.

Finding 5 – Ensure Compliance with State Laws and Regulations over Employee use of Personal and Major Medical Leave

Response: MDES acknowledges this finding and put into place steps necessary to ensure the agency complies with all State of Mississippi rules for personal and major medical leave.

Corrective Action Plan:

- A. Specific steps to be taken to correct the situation -
MDES has strengthened the review of employee leave by Human Resources staff to ensure that timesheets are recorded properly in SPAHRS.
- B. Contact Person: Ruby Walker, Director of Human Resources
- C. Anticipated Completion Date for Corrective Action: Corrective action has been implemented.
- D. There are no reasons why corrective action is unnecessary.

Sincerely,

A handwritten signature in blue ink that reads "Jacqueline A. Turner By BGM".

Jacqueline A. Turner
Executive Director

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