



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
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STATE AUDITOR

September 6, 2019

Limited Internal Control and Compliance Review Management Report

Jeff Jernigan, Executive Director
Mississippi Motor Vehicle Commission
1755 Lelia Drive, Suite 200
Jackson, MS 39216

Dear Jeff Jernigan:

Enclosed for your review are the Limited Internal Control and Compliance Review findings for the Mississippi Motor Vehicle Commission for the Fiscal Year 2018. In these findings, the Auditor's Office recommends the Mississippi Motor Vehicle Commission:

1. Strengthen Controls to Ensure Compliance with State Laws Over Contractual Services;
2. Strengthen Controls to Ensure Compliance with State Laws over Procurement Card Purchases;
3. Strengthen Controls to Ensure Compliance with State Laws over Employee Leave;
4. Strengthen Controls to Ensure Compliance with State Laws Over Commodity Purchasing;
5. Strengthen Controls to Ensure Compliance with State Laws Over Recording Capital Assets; and
6. Strengthen Controls to Ensure Proper Segregation of Duties Within the Agency;

Please review the recommendations and submit a plan to implement them by September 20, 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.

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

Sincerely,

A handwritten signature in black ink, reading "Stephanie C. Palmertree", is positioned above the typed name and title.

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 Motor Vehicle Commission for the fiscal year ending June 30, 2018. The Office of the State Auditor's staff members participating in this engagement included Brianna Dang, Shavonda Lott, and Emily Mathis.

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 *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.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a deficiency that we consider to be a *significant deficiency* in internal control over financial reporting. 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. This matter is noted under the heading **SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE WITH STATE LAW**.

In addition, while performing our review, we noted certain control deficiencies 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 **NONCOMPLIANCE WITH STATE LAW** and **OTHER CONTROL DEFICIENCIES**.

SIGNIFICANT DEFICIENCY AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 1: Agency Should Strengthen Controls to Ensure Compliance with State Laws Over Contractual Services.

Executive Summary: During review of contractual services expenditures, we noted several contracts with a vendor that resulted in state funds that were abused, misused, and wasted. It should also be noted that these transactions occurred between related parties.

Recommendation: Mississippi Motor Vehicle Commission should implement internal controls in order to ensure compliance with state laws in regards to payments made related party vendors. Also, to ensure proper controls and procedures in connection with related party transactions.

Note: *This matter has been referred to the Ethics Commission.*

Detailed Analysis: Based on testwork performed over 30 Contractual Services Expenditures for FY2018 for the Mississippi Motor Vehicle Commission, we noted two (2) instances, listed below in which lack of evidence regarding services, and varying rates charged by a vendor (son-in-law) resulted in improper governmental action as defined by *Section 25-9-171, Mississippi Code Annotated (1972)*. Due to the nature of the findings and the related parties noted, auditor extended testwork to include all payments

made to the son-in-law during FY2018 and FY2019 and noted 20 additional instances that resulted in improper governmental action as defined by *Section 25-9-171, Mississippi Code Annotated (1972)* as expenditures that resulted in abuse, misuse, or waste. Upon further inquiry it was noted that the son-in-law was also recommended for these services by a 1st degree relative whom is employed in the agency. The payments to the son-in-law were also made and approved by a 1st degree relative. The total expenditures of \$13,500 for contractual services and amounts paid to the son-in-law are summarized below:

- \$2,750.00 for moving services paid to the son-in-law for various transporting and rearranging of office furniture for the agency. The auditors noted a discrepancy in these services as the payments for each day of moving varied;
- \$5,750.00 for various work projects performed for the agency. These various projects were considered to be improper due to part of the work never being used by the agency. There was also a monthly contract amount that was paid however it lacked evidence a service was provided; and
- \$5,000.00 for a "Rebranding" project for an employee's level 5 CPM Project. As part of this project the son-in-law was enlisted to redesign and update the agency's website and work to rebrand the agency. This project was not implemented and the agency could not provide evidence that any work had been performed for this project therefore this expenditure appears to be misuse and wasteful.

Section 25-9-171, Mississippi Code Annotated (1972) defines improper governmental action as "any action by an employee which is undertaken in the performance of the employee's official duties, whether or not the action is within the scope of the employee's employment: (i) Which is in violation of any federal or state law or regulation, is an abuse of authority, results in substantial abuse, misuse, destruction, waste, or loss of public funds or public resources..."

Improper governmental action could lead to the misuse, abuse, and wasting of public funds and resources.

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

Executive Summary: During review of the Mississippi Motor Vehicle Commission's procurement card purchases, we noted multiple instances in which the agency did not comply with State Procurement Card Guidelines. Examples of noncompliance include lack of notation of person making charges, lack of independent review of charges, and a lack of maintaining receipts of purchases. In addition, taxes were paid for a purchase and the agency was not completing food purchase forms as required for purchasing food for board meetings. One other issue was multiple purchases that did not appear to be for legitimate agency business.

Recommendation: Mississippi Motor Vehicle Commission should comply with the Department of Finance and Administration's (DFA) State Procurement Manual and Guidelines for procurement card purchases as well as implement better internal controls to ensure compliance with state laws and procedures.

Detailed Analysis: During our review of 30 Procurement Card expenditures, we noted the following instances:

- Twenty Nine (29) instances in which auditor could not verify that the person who was signing the charge slip was authorized to use the procurement card due to the lack of log or signed receipt for purchase;
- A lack of independent review of all procurement card charges;

- One (1) instance in which the agency could not provide a charge slip or receipt for a purchase in the amount of \$49.75;
- One (1) instance in which state and local taxes were paid for a purchase;
- Twelve (12) instances in which the agency did not complete an Office of Purchasing and Travel Food Purchase form for food purchases; and
- Six (6) instances in which procurement card purchases were not for agency business, totaling \$536.59.

The State of Mississippi's Office of Purchasing and Travel *State Procurement Card Guidelines, Section 1, Subsection C* states that, "Agencies that are issued procurement cards for office use should have the program coordinator keep the procurement card(s) in a secure location, such as, a locked file cabinet or office safe, etc. Require users to sign the procurement card out and in after each use."

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 authorized user sign on invoices/receipt of goods purchased through use of agency's procurement card. Additionally, effective internal controls allow for proper independent review of Procurement Card Transactions.

The State of Mississippi's Office of Purchasing and Travel *State Procurement Card Guidelines, Section 1, Subsection A* requires that the agency, "Ensures cardholders have receipts/invoices for purchases made; if no receipt/invoice, the program coordinator should have cardholder complete Procurement Card Missing Document Affidavit Form."

Section 27-65-105(a), Mississippi Code Annotated (1972), states that governmental agencies are exempt from state sales tax. Also, the State of Mississippi's Office of Purchasing and Travel *State Procurement Card Guidelines, Section 14* states, "Invoices and/or receipts should be reviewed to ensure that the vendor did not charge sales tax."

The State of Mississippi's *Office of Purchasing and Travel State Procurement Card Guidelines, Section 4* states, "ALL food purchases on the Procurement Card require an "Office of Purchasing and Travel Food Purchase Form," to be completed. If food is purchased for a business meeting or an event, the MEETING/EVENT box should be checked and the remainder of the form completed. If the food is purchased for a meeting, attach the meeting's agenda to the back of the form. If the food is purchased for the agency rather than for a business meeting or an event (i.e. bulk food), check the BULK FOOD PURCHASE box and complete only the "Purpose" section of the form."

The State of Mississippi's Office of Purchasing and Travel *State Procurement Card Guidelines, Section 2, Subsection B*, states "The cardholder(s) shall assure that the item(s) purchased are required for official government purposes."

Failure to comply with the requirements of the State Procurement Manual and guidelines governing the Small Purchase Procurement Card program could allow for improper payments or purchases made by unauthorized personnel. Additionally, paying sales tax on purchases results in noncompliance with state laws. Furthermore, the lack of independent review of procurement card purchases may result in program funds being dispersed for inappropriate expenditures.

Finding 3: Agency Should Strengthen Controls to Ensure Compliance with State Laws over Employee Leave.

Executive Summary: During review of employee leave it was noted that the Mississippi Motor Vehicle Commission did not maintain records of employee leave and also did not provide evidence of supervisory review of leave taken.

Recommendation: Mississippi Motor Vehicle Commission should strengthen controls over leave to verify all leave is properly authorized in compliance with state law.

Detailed Analysis: During our review of all employee's leave for three months during the year for the Mississippi Motor Vehicle Commission, we noted the following instances:

- One (1) instance in which the agency could not provide the employees leave request forms for August 2017. Due to agency not maintaining documentation the auditor could not determine if leave was approved by supervisory personnel or if leave was properly recorded in SPAHRS.
- Two (2) instances in which leave slips provided lacked evidence of supervisor's review

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

Failure to properly authorize leave taken and maintain proper records could result in inaccurate leave reported in the Statewide Payroll and Human Resources System (SPAHRS).

Finding 4: Agency Should Strengthen Controls to Ensure Compliance with State Laws over Commodity Purchases.

Executive Summary: It was noted that the Mississippi Motor Vehicle Commission purchased goods prior to submitting purchase orders to the Department of Finance and Administration. State law requires agencies to issue purchase orders prior to purchases.

Recommendation: We recommend the Mississippi Motor Vehicle Commission comply with state purchasing laws by issuing and approving purchase orders prior to the receipt of goods and services.

Detailed Analysis: During our review of 30 commodity expenditures, we noted 21 instances in which purchase orders were created after the purchase of goods and/or services.

Section 7-7-23, Mississippi Code Annotated (1972), states in part, "Purchases of equipment, supplies, materials or service 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 create and approve a purchase order prior to the date the goods and services are received impedes the ability of the agency and the Department of Finance and Administration to maintain budgetary controls over the agency's expenditures.

Finding 5: Agency should Strengthen Controls to Ensure Compliance with State Laws Over Recording Capital Assets

Executive Summary: Two instances of assets purchased not being added to the Capital Asset listing were noted during review of the capital assets at the Mississippi Motor Vehicle Commission.

Recommendation: Mississippi Motor Vehicle Commission should comply with state procurement card guidelines and properly record assets.

Detailed Analysis: During our review of Property and Capital assets additions, we noted the following instances:

- One instance where a refrigerator was purchased with Procurement Card and not properly recorded as an asset addition. The asset cost was \$1,293.61. This item is over the \$1,000 threshold and therefore should be recorded as an asset.
- One instance where a camera was purchased with Procurement Card and not properly recorded as an asset addition. The camera was a GoPro Camera valued at \$348.86 which exceeded the \$250 threshold therefore should have been listed as an asset.

Section 29-9-1, Mississippi Code Annotated (1972), states "that the state auditor of public accounts shall require the heads of all state agencies to make an inventory of all lands, buildings, equipment, furniture, and other personal property owned by or under the control of the respective agencies." Also, The State of Mississippi's Office of Purchasing and Travel State Procurement Card Guidelines, Section IX, states "All agencies and universities are required to maintain a complete and current inventory list of each property item which costs \$1000 or more unless the items purchased fall within the groups listed below...These items will be required as equipment, regardless of their purchase value....Camera and Camera Equipment (greater than \$250)....". Based on the state law and the guidelines above the purchases qualified as equipment and therfor should be recorded as assets on the inventory listing.

Failure to comply with the requirements, of the State Procurement Manual and Mississippi State guidelines governing assets and equipment additions, could allow for asset and equipment over a certain threshold to be miscoded.

OTHER CONTROL DEFICIENCIES

Finding 6: Agency should Strengthen Controls to Ensure Proper Segregation of Duties within the Agency.

Executive Summary: The Mississippi Motor Vehicle Commission did not institute appropriate and proper segregation of duties among its personnel over safeguarding of assets, such activities involve the cash receipts and disbursements processes.

Recommendation: Mississippi Motor Vehicle Commission should implement better internal controls relating to segregation of duties.

Detailed Analysis: During our review of the internal controls at the Mississippi Motor Vehicle Commission, the auditor noted a lack of segregation of duties in the processing of cash receipts and disbursements.

- In cash receipt process, it was noted that the one employee performs all of the following functions; reconciliation between the receipts log, the deposit, and MAGIC; prepares the MAGIC receipt (YC); and approves the MAGIC receipt (YC).
- In the disbursements process, it was noted that same employee, as mentioned above, also performs the following functions; authorizes purchases of goods and verifies receipts of the goods. This employee also records the expenditure, approves the payment in MAGIC, and in turn mails the warrants to the vendors.

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 procedures require the functions of processing, recording, and maintaining custody of assets be segregated as much as possible 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 potential for fraud or abuse.

A lack of segregation of duties could result in improper asset safeguarding against loss from unauthorized use or theft. Additionally, failure to segregate functions properly increases the possibility of errors and potential for fraud or abuse.

End of Report



MISSISSIPPI MOTOR VEHICLE COMMISSION

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601-987-3995
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September 18, 2019

Honorable Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P.O. Box 656
Jackson, MS 39205-0956

Dear Mr. White:

Thank you for your recommendations and the opportunity to respond to your letter dated September 6, 2019. The following corrective actions will enable the Mississippi Motor Vehicle Commission (MMVC) to carry out its mission more efficiently, strengthen internal controls and ensure compliance with state laws.

AUDIT FINDINGS:

Finding Number 1: Agency Should Strengthen Controls to Ensure Compliance with State Laws Over Contractual Services.

Response # 1: The agency does not disagree with the Auditor's findings. The agency should have had stronger controls to prevent the actions and expenses that occurred. These contracts were approved by the former Executive Director, and they would not have been approved by the new Executive Director. The agency will cooperate with Ethics Commission.

Corrective Action Plan:

The agency is now reporting executed contracts to the Commission. Additionally, the Executive Director will examine future contracts to be in compliance with state law, including, but not limited to Miss. Code Ann. Section 25-9-171.

Finding Number 2: Agency Should Strengthen Controls to Ensure Compliance with State Laws Over Procurement Card Purchases.

Response # 2: The agency concurs with this finding.

Corrective Action Plan:

Since June 2019, the agency has implemented multiple changes with regards to the procurement card. The Procurement card is kept in locked cabinet and contains a sign in/out sheet. Receipts are signed by the purchaser and maintained by the agency. In the event of a receipt not being available in the future, the agency will require an affidavit to be executed. The purchaser carries the tax-exempt letter with the procurement card when making purchases. The Office of Purchasing and Travel Food Purchase Form is being used by the agency. Items purchased are being reviewed by the Executive Director to ensure that the items purchased are required for official government purposes. The new Executive Director is registered for the Certified Mississippi Purchasing Agent (CMPA) Certification Class for September 2019.

Finding Number 3: Agency Should Strengthen Controls to Ensure Compliance with State Laws Over Employee Leave.

Response # 3: The agency concurs with this finding.

Corrective Action Plan:

The agency has implemented monthly time sheets as well as continued use of leave slips for planned leave. Documents and forms were drafted in compliance with state law. Monthly time sheets are verified by the Executive Director.

Finding Number 4: Agency Should Strengthen Controls to Ensure Compliance with State Laws Over Commodity Purchases.

Response # 4: The agency concurs with this finding.

Corrective Action Plan:

The agency has implemented new controls with relation to Commodity Purchases. Purchase Orders are being created in advance of the purchase of good and/or services.

Finding Number 5: Agency Should Strengthen Controls to Ensure Compliance with State Laws Over Recording Capital Assets.

Response # 5: The agency concurs with this finding.

Corrective Action Plan:

The agency has listed the items identified as an asset in MAGIC. The agency has implemented steps to make sure future purchases of assets in excess of the recording amounts are properly recorded as an asset. Additionally, the new Executive Director has registered for the Certified Mississippi Purchasing Agent (CMPA) Certification Class for September 2019.

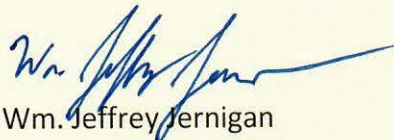
Finding Number 6: Agency Should Strengthen Controls to Ensure Proper Segregation of Duties within the Agency.

Response # 6: The agency concurs with this finding.

Corrective Action Plan:

The agency has implemented new controls to ensure proper segregation of duties within the agency. Payment of expenses now requires the Executive Director's documented authorization. The new Executive Director is continuing to learn MAGIC roles and further segregate duties.

Sincerely,

A handwritten signature in blue ink, appearing to read "Wm. Jeffrey Fernigan", with a long horizontal flourish extending to the right.

Wm. Jeffrey Fernigan
Executive Director