

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.70.20
SECTION	POLICIES	ISSUANCE DATE May 13, 2011
SUB-SECTION	RELATED PARTY AND NEPOTISM	REVISED - 2018

RELATED PARTY AND NEPOTISM

Related party transactions and nepotism can create potential or actual conflicts of interest, and raise questions as to whether these transactions and situations are in the best interests of the State of Mississippi and the public.

A related party is defined as a relationship in which one party has significant influence or control over another party. These relationships may lead to a conflict of interest, either implied or actual. Section 25-4-3, Miss. Code Ann. (1972), defines a public servant as any elected or appointed official, member, officer, director, commissioner, supervisor, chief, head, agent, or employee of the State, political subdivision or any other body politic, or any individual who receives a salary, per diem, or expenses paid in whole or in part out of government funds. Section 25-4-105, Miss. Code Ann. (1972), prohibits a public servant from being involved in any related party transactions to obtain financial benefits for any relative or any business with which he is associated.

The following activities may indicate a related party transaction:

- Acting as a contractor, subcontractor, or vendor, or having a material interest in an entity serving as a contractor, subcontractor, or vendor, for the governmental entity the public servant is associated with;
- Acting as a purchaser at a government sale of the governmental entity the public servant is associated with;
- Accepting compensation to influence a decision of the governmental entity the public servant is associated with;
- Using or disclosing information gained in the course of employment as a public servant for financial benefit.

Nepotism is defined as favoritism or patronage granted to relatives without regard to merit. Section 25-1-53, Miss. Code Ann. (1972), prohibits the hiring of any person related by blood or marriage within the third degree as computed by civil law. These persons include parents, grandparents, great-grandparents, children, grandchildren, great-grandchildren, siblings, nieces and nephews, and aunts and uncles.

Each agency should establish a policy on Related Parties and Nepotism. The policy should address the steps necessary to prevent and correct implied and actual conflicts of interest. A sample policy is found in Section 31 – References (31.10.20) at: <https://www.dfa.ms.gov/media/6484/311021-sample-related-party-questionnaire.doc>. Some suggested items to include in the policy are:

- A description of related party activities as described in the introduction section.
- A means of reporting related party transactions to the Agency's Internal Audit function or other designee. A sample Related Party Questionnaire is found in Section - 31 References (31.10.21) at: <https://www.dfa.ms.gov/media/6484/311021-sample-related-party-questionnaire.doc>.
- A definition of "immediate family member," i.e., related by blood or marriage within the third degree.
- A prohibition against the hiring of immediate family members in the following situations:
 - There is a direct reporting relationship;
 - The immediate family member will be working in the same program area and in the same work site; or
 - The immediate family members will occupy positions in the same "decision making" process that would compromise internal controls (i.e. decisions regarding approval of contract, payment of fees, or acceptance of proposals).
- A recommendation that referrals should come from an employment list, transfer list, recall list, web posting, or Human Resources.

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- A prohibition against an employee who is involved in the recruitment and selection process being an immediate family member of a prospective candidate.
- A statement that any applicant who withholds or gives false information regarding personal relationships may be terminated, and a supervisor who knowingly violates this policy may be subject to disciplinary action.
- A statement that supervisors shall not supervise immediate family members or individuals where there may be a conflict of interest, including conflicts that arise from personal relationships.

Agencies should perform a review of accounting transactions for any potential related party transactions at least annually. Key members of the management team should complete a Related Party Questionnaire, found in Section 31 – References (31.10.21) at: <https://www.dfa.ms.gov/media/6484/311021-sample-related-party-questionnaire.doc>. These questionnaires should be reviewed periodically for any changes. The new hire process should be monitored to ensure nepotism does not occur.