



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

February 14, 2013

Financial Audit Management Report

Lynn House, Ph.D.
Interim State Superintendent of Education
Mississippi Department of Education
P. O. Box 771
Jackson, MS 39205

Dear Dr. House:

Enclosed for your review is the financial audit finding for the Mississippi Department of Education for the Fiscal Year 2012. In this finding, the Auditor's Office recommends the Mississippi Department of Education review employee approval levels in the Statewide Automated Accounting System.

Please review the recommendation and submit a plan to implement it by March 8, 2013. The enclosed finding contains more information about our recommendation.

During future engagements, we may review the finding in this management report to ensure procedures have been initiated to address this finding.

This report is intended solely for the information and use of management, individuals charged with governance, 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. The Office of the State Auditor has also issued an Information Systems Management Report on the Mississippi Department of Education, dated December 12, 2012. That report should be read in conjunction with this report.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Patrick Dendy".

Patrick Dendy, CPA
Director, Department of Audit
Enclosures

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Department of Education for the year ended June 30, 2012. These financial statements are consolidated into the State of Mississippi's *Comprehensive Annual Financial Report*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Kimberly Majure, CPA, Lisa Worthy, Katherine Edwards, Elaina Jo Smith, and Natalie Wolfe.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. 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.

Internal Control over Financial Reporting

Management of the Mississippi Department of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Department of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Department of Education's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified a certain deficiency in internal control over financial reporting that requires the attention of management. This matter is noted under the heading **OTHER CONTROL DEFICIENCY** as item 2012-08.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Department of Education are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

OTHER CONTROL DEFICIENCY

Finding Number

Finding and Recommendation

2012-08

Employee Approval Levels in the Statewide Automated Accounting System Should Be Reviewed

Finding:

During our audit of the Mississippi Department of Education (MDE), we reviewed the agency's approval levels established in the Statewide Automated Accounting System (SAAS) for transactions related to disbursements, journal entries and revenue to determine if adequate segregation of duties existed for processing transactions. We noted four employees had entry and all agency approval levels required to process disbursement transactions; two employees had entry and all approval levels required to process both revenue and journal entry transactions; and one employee had entry and all approval levels required to process journal entry transactions.

Good internal controls require segregation of duties so that an employee does not have the authority to both initiate and approve an entire transaction. Failure to maintain adequate segregation of duties increases the potential for errors or fraud to occur without being properly detected.

Recommendation:

We recommend the Mississippi Department of Education strengthen controls by reviewing employee approval levels in the Statewide automated Accounting System and ensuring that duties are segregated so that no individual has both input access and all agency approval levels in the Statewide Automated Accounting System (SAAS) for disbursements, journal entries, and revenue transactions.



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

March 21, 2013

Single Audit Management Report

Lynn House, Ph. D.
Interim State Superintendent of Education
Mississippi Department of Education
P.O. Box 771
Jackson, MS 39205

Dear Dr. House:

Enclosed for your review are the other audit findings for the Mississippi Department of Education for the Fiscal Year 2012. In these findings, the Auditor's Office recommends the Mississippi Department of Education:

1. Strengthen controls over Title 1 school improvement reporting; and
2. Strengthen controls over Federal Funding and Accountability Transparency Act Reporting.

Please review the recommendations and submit a plan to implement them by April 4, 2013. 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, individuals charged with governance, Members of the Legislature and federal awarding agencies and pass-through entities 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 Mississippi Department of Education to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Education throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Patrick Dendy", is written over a light blue circular stamp.

Patrick Dendy, CPA
Director, Department of Audit

Enclosures

SINGLE AUDIT FINDINGS

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of the State's major federal programs administered by the Mississippi Department of Education for the year ended June 30, 2012. This audit was conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Lisa Worthy, Stacey Allman, CPA, Camden Baird, Katherine Edwards, Donna Parmegiani, CPA, Elaina Jo Smith, Kristi Webb, Thomas Wirt, and Natalie Wolfe.

Our procedures and tests cannot and do not provide absolute assurance that all federal legal requirements have been met. 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.

Internal Control over Compliance

Management of the Mississippi Department of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Mississippi Department of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted deficiencies in internal control over compliance that require the attention of management that we have reported on the attached document "Other Audit Findings" as items Oth-16 and Oth-17.

Compliance

We have audited the Mississippi Department of Education's compliance with the types of compliance requirements described in OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the State's major federal programs administered by the Mississippi Department of Education. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. Our audit fieldwork included examining, on a test basis, evidence about the Mississippi Department of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

The results of our auditing procedures disclosed no instances of noncompliance that are required to be reported by OMB Circular A-133.

OTHER AUDIT FINDINGS

In planning and performing our audit of the federal awards received by the Mississippi Department of Education for the year ended June 30, 2012, we considered internal control over compliance with the requirements that could have a direct and material effect on the major federal programs. Matters which require the attention of management were noted. These matters which do not have a material effect on the agency's ability to administer major federal programs in accordance with applicable laws, regulations, or provisions of contracts or grant agreements involve other control deficiencies.

A *deficiency in internal control* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

**CFDA/Finding
Number**

Findings and Recommendations

SPECIAL TESTS AND PROVISIONS

Control Deficiency

84.010

Title 1 Grants to Local Educational Agencies

Federal Award Number and Year: S010A110024 2011

Oth-16

Controls over Title I School Improvement Reporting Should Be Strengthened

Finding:

The *Office of Management and Budget Circular A-133* states that a state educational agency (SEA) must annually review the progress of each local educational agency (LEA) receiving funds under subpart 2 of Part A of Title I to determine whether the LEA made adequate yearly progress as defined by the State. The SEA must identify for improvement any LEA failing to make adequate yearly progress for two consecutive years. An SEA must identify the LEA for corrective action if it continues to fail to make adequate yearly progress at the end of its second full year in improvement. An SEA must report annually to the Secretary of Education and make certain information available within the State, including the number and names of each school identified for improvement, corrective action and restructuring, the reason why each school was identified, and the measures taken to address the achievement problems of such schools and LEAs. In addition, the SEA must prepare and disseminate an annual State report card that contains information on the performance of LEAs regarding adequate yearly progress, including the number and names of each school identified for improvement, corrective action and restructuring.

Testwork performed at the Mississippi Department of Education over Title I school improvement reporting included comparing the MS Report Card with the District/School level results for school year 2010/2011 published on the agency's website. We noted the following problems in our testwork.

- Five instances were noted in which schools listed in improvement status per the District/School level results did not appear on the MS Report Card and one instance was noted in which a school was listed in improvement status per the MS Report Card and did not appear on the District/School level report.
- Two instances were noted in which schools appear in a different improvement status when comparing the MS Report Card the District/School level results.
- The MS Report Card indicated there were 221 schools in the state in improvement status. All schools with the exception of one were published twice on the 2010/2011 MS Report Card due to a programming error, causing the number of schools listed in improvement status and the number of schools in the state to double. The report would have indicated 111 schools in the state in improvement status if duplicates were removed.

Good internal controls require the reports published on the MDE website to contain accurate data to ensure the public has access to reliable information on schools in improvement status and also to ensure compliance with federal regulations governing the Title I school improvement reporting requirement.

Recommendation:

We recommend the Mississippi Department of Education Office of Research and Statistics strengthen controls over the reporting of schools in improvement status. Comparisons should be made between schools identified on the MS Report Card and the District/School level results to ensure the public has access to accurate data.

REPORTING

Control Deficiency

10.558	Child and Adult Care Food Program
84.010	Title I Grants to Local Educational Agencies
84.027	Special Education – Grants to States (IDEA, Part B)
84.173	Special Education – Preschool Grants (IDEA, Preschool)
84.367	Improving Teacher Quality State Grants

Federal Award Number and Year:	12125MS326N1099	2011
	S010A110024	2011
	H173A110113	2011
	H027A110108	2011
	S367A110023	2011

Oth-17

Controls Should Be Strengthened Over Federal Funding and Accountability Transparency Act Reporting

Finding:

The *Code of Federal Regulations* (2 CFR part 170) sets forth the reporting requirements of subawards under the Federal Funding Accountability and Transparency Act (FFATA). Direct recipients of grants with an effective date on or after October 1, 2010 who make first-tier subawards equal to or exceeding \$25,000 on or after the effective date are required to report each subaward obligating action equal to \$25,000 or more in Federal funds. Direct recipients are required to use the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) to report qualifying subaward transactions by the end of the month following the month in which the subaward or obligation of \$25,000 or greater was made.

The Mississippi Department of Education (MDE) received Title I, Title II, Special Education – Part B and Special Education – Preschool, and Child and Adult Care Food Program prime awards from federal grantor agencies during fiscal year 2012 which required subaward reporting under the Transparency Act. During testwork performed for FFATA reporting, we noted the following problems.

- For the Title I and Title II programs, several modifications were made before finalized allocations were determined due to changes in federal funding. This process took place over several months. MDE did not report the subawards until the final allocations were determined – the report was input on April 18, 2012. Review of federal regulations and subsequent correspondence with federal program personnel appear to indicate that the various subaward modifications should have been reported at the time they were determined in order to provide timely information.
- Errors were noted on the report input on April 18, 2012 for the Title I program: 60 out of 152 instances were noted, totaling \$80,173,586, in

which subawards were not reported on www.usaspending.gov, and 92 out of 152 instances were noted, totaling \$72,986,463, in which subawards reported on www.usaspending.gov were understated, for a net total subaward understatement of \$153,160,049. MDE attempted to correct the subawards reported in FSRS on April 25, 2012, but were not aware the report failed to upload into FSRS until the auditor brought the matter to the attention of management in February, 2013. It appears the report failed to upload because of an error which caused a negative number to be reported.

- For the Child and Adult Care Food Program, the agency did not report subaward obligations occurring in June 2012.
- For Title I, Title II, Special Education – Part B and Special Education – Preschool programs, the key data element ‘Subaward Obligation/Action Date’ reported did not agree with the date the subaward agreement was signed.

Good internal controls require that procedures be established to ensure that subaward information is reported in a timely and accurate manner. The failure to perform the required FFATA reporting in a timely manner for federal programs could result in the agency being in noncompliance with federal reporting requirements.

Recommendation:

We recommend the Mississippi Department of Education strengthen controls over Federal Funding Accountability and Transparency Act reporting to ensure subawards are reported in a timely and accurate manner in compliance with federal reporting requirements.