



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

March 21, 2013

**Single Audit Management Report**

The Honorable Phil Bryant  
Governor, State of Mississippi  
Sillers Building, 19<sup>th</sup> Floor  
550 High Street  
Jackson, Mississippi 39201

Dear Governor Bryant:

Enclosed for your review are the single audit finding and other audit findings for the Office of the Governor for the Fiscal Year 2012. In these findings, the Auditor's Office recommends the Office of the Governor:

Single Audit Finding:

1. Strengthen controls over the preparation of the Schedule of Expenditures of Federal Awards;

Other Audit Findings:

2. Strengthen controls over the monitoring of grant allocations;
3. Review employee approval levels in the Statewide Automated Accounting System;
4. Strengthen controls over cash management;
5. Perform and document a review of the Federal 1512 reporting; and
6. Strengthen controls over the preparation of the SF-425 report and maintain supporting documentation.

Please review the recommendations and submit a plan to implement them by March 26, 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 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.

Office of the Governor

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I hope you find our recommendations enable the Office of the Governor to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Office of the Governor 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

## 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 Office of the Governor 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 Amy Buller, CPA; Emily McHan, CPA; and Jeremy Miller, CPA.

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 Office of the Governor 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 Office of the Governor'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 identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance identified in this letter as item 12-09 to be a significant deficiency.

In addition, we noted other 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-18, Oth-19, Oth-20, Oth-21 and Oth-22.

### Compliance

We have audited the Office of the Governor'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 Office of the Governor. 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 Office of the Governor'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.

**CFDA/Finding  
Number**

**Finding and Recommendation**

**REPORTING**

***Significant Deficiency***

11.557

Broadband Technology Opportunities Program (BTOP)

Federal Award Number and Year: NT10BIX5570094 2012

12-09

Controls Should Be Strengthened over Preparation of the Schedule of Expenditures of Federal Awards

*Finding:*

Section 27.30.60 of the *Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual* states that the Schedule of Federal Grant Activity (SEFA) is prepared to report federal grants. The schedule is used in the GAAP financial reporting packet to support the portions of grant revenue that are recognized as revenues, receivables, deferred revenues and expenditures. The schedule is also used as a supplemental schedule for the federal single audit report required by the Single Audit Act of 1984, P.L. 98-502. The SEFA is required to be completed by each agency as a part of the annual GAAP reporting process.

During testwork performed on the SEFA at the Office of the Governor, we noted the following problems.

- The grant award was recorded as \$83,987,788; the correct amount based on supporting documentation was \$70,055,000.
- The cumulative receipts as of June 30, 2012, were recorded as \$35,839,146; the correct amount based on supporting documentation was \$24,052,326.
- The cumulative expenditures as of June 30, 2012, were recorded as \$36,452,338; the correct amount based on supporting documentation was \$24,665,518.
- There was no evidence of supervisory review of the SEFA.

As a result of the errors noted, changes were proposed to management for correction and were approved by agency personnel to correctly state the SEFA.

Good internal controls require a review of the SEFA prior to submission to the Department of Finance and Administration to ensure the schedule is properly prepared and accurate based on supporting documentation. Failure to perform a supervisory review could result in information which misrepresents the transactions of the grant and also cause errors in subsequent accounting entries which are supported by the SEFA as well as information reported to federal oversight agencies.

*Recommendation:*

We recommend the Office of the Governor strengthen controls over the preparation of the Schedule of Expenditures of Federal Awards by requiring a supervisory review be performed prior to submission to the Department of Finance and Administration to ensure the schedule is properly prepared and accurate based on supporting documentation. The supervisory review should be documented.

**OTHER AUDIT FINDINGS**

In planning and performing our audit of the federal awards received by the Office of the Governor 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**

**Finding and Recommendation**

**ACTIVITIES ALLOWED/UNALLOWED  
ALLOWABLE COSTS/COST PRINCIPLES**

***Control Deficiency***

11.557

Broadband Technology Opportunities Program (BTOP)

Federal Award Number and Year: NT10BIX5570094 2012

Oth-18

Controls Should Be Strengthened over Monitoring of Grant Allocations

*Finding:*

The Office of the Governor maintains agreements with the University of Mississippi Medical Center and the Wireless Communication Commission to carry out the program requirements of the Broadband Technology Opportunities Program. These agreements specify a set amount of grant money that can be disbursed to each agency for program costs. During testwork at the Office of the Governor, it was noted that the Governor's Office maintained a disbursement log with the cumulative amounts distributed to each agency; however, the allocation amount for each agency was not compared to the cumulative amount disbursed to each agency. Failure to compare the cumulative amounts distributed to each agency to the allocation amount could result in an agency being over/under paid based on the agreement.

*Recommendation:*

We recommend the Office of the Governor strengthen controls over grant allocations to ensure cumulative disbursements are compared to amounts allocated to the University of Mississippi Medical Center and the Wireless Communication Commission on a periodic basis, and that this comparison be documented.

**ACTIVITIES ALLOWED/UNALLOWED  
ALLOWABLE COSTS/COST PRINCIPLES**

*Control Deficiency*

11.557

Broadband Technology Opportunities Program (BTOP)

Federal Award Number and Year: NT10BIX5570094 2012

Questioned Costs: None

Oth-19

A Review Should Be Performed of Employee Approval Levels in the Statewide Automated Accounting System

*Finding:*

During our review of employee approval levels in the Statewide Automated Accounting System (SAAS) at the Office of the Governor for fiscal year 2012, we noted the following problems.

- Both employees listed on the security tables have entry and all agency levels of approval for disbursements, revenue, and journal vouchers.
- Payment vouchers and cash receipts are prepared and authorized by the same person with no supervisory review or approval.

Good internal controls require duties to be segregated so no one individual has the ability to initiate, authorize, and record a transaction. Failure to ensure segregation of duties could allow unauthorized or erroneous transactions to be recorded in SAAS and not be detected promptly.

*Recommendation:*

We recommend the Office of the Governor review employee approval levels over disbursements, journal vouchers, and revenue in the Statewide Automated Accounting System (SAAS) to ensure duties are adequately segregated. We further recommend the agency ensure duties are adequately segregated for preparation and approval of payment vouchers and cash receipts.

**CASH MANAGEMENT**

*Control Deficiency*

11.557

Broadband Technology Opportunities Program (BTOP)

Federal Award Number and Year: NT10BIX5570094 2012

Oth-20

Controls Should Be Strengthened over Cash Management

*Finding:*

During cash management testwork performed at the Office of the Governor on 15 out of 20 total transfers, we noted two instances in which the time period between the Governor's Office's receipt of federal funds and the transfer out to the appropriate recipient was more than three days. The transfers were four to six days after receipt of federal funds. Per 31 CFR 205.12(b)4, transfers should be made not more than three business days prior to the day the State issues checks or initiates EFT payment. A lapse of greater than three days between the Governor's Office's receipt of federal funds and its disbursement to recipients could result in the Governor's Office's earning interest on federal money that would then be required to be remitted to the federal government.

*Recommendation:*

We recommend the Office of the Governor strengthen controls to ensure federal funds are drawn and transferred in accordance with federal regulations. We further recommend the agency determine if interest is owed to the federal grantor related to transfers which were not made timely.

**REPORTING**

*Control Deficiency*

11.557

Broadband Technology Opportunities Program (BTOP)

Federal Award Number and Year: NT10BIX5570094, 2012

Oth-21

A Review of Federal 1512 Reporting Should Be Performed and Documented

*Finding:*

Under Section 1512 of the *American Recovery and Investment Act of 2009*, recipients of federal funds distributed under the act must submit reporting on the use of those funds no later than ten days after the end of each calendar quarter. During testwork at the Office of the Governor we noted no supervisory review was performed on Federal 1512 reporting.

Good internal controls require a supervisory review of Federal 1512 reporting be performed and documented prior to submission to the federal government. Failure to ensure a supervisory review is performed could allow erroneous reports to be submitted to the federal government and not be detected promptly.

*Recommendation:*

We recommend the Office of the Governor implement controls to ensure a supervisory review of Federal 1512 reporting is performed and documented as evidenced by the signature and date of the reviewer.

**REPORTING**

*Control Deficiency*

11.557

Broadband Technology Opportunities Program (BTOP)

Federal Award Number and Year: NT10BIX5570094 2012

Oth-22

Controls Should Be Strengthened Over Preparation of the SF- 425 Report and Supporting Documentation Should Be Maintained

*Finding:*

The National Telecommunications and Information Administration (NTIA) administers the Broadband Technology Opportunities Program. The NTIA requires quarterly financial reporting using the Office of Management and Budget (OMB) standard SF-425 report. During testwork performed on the SF-425 report for the Office of the Governor, we noted the following problems.

- No supervisory review was performed or documented for the SF-425 report.
- The Governor's Office did not obtain, review, or maintain supporting documentation for the amounts recorded on the SF-425 report as "unliquidated obligations". The "unliquidated obligations" amounts were provided by the Mississippi University Medical Center and the Department of Information Technology Services acting on behalf of the Mississippi Wireless Communication Commission, but we noted the Office of the Governor did not review or maintain supporting documentation that the amounts provided and reported were accurate.

Good internal controls require a supervisory review be performed of federal reporting and that the person compiling federal reporting should review and maintain supporting documentation for the figures entered. Failure to perform a supervisory review and maintain supporting documentation could allow errors or irregularities to occur and not be detected timely.

*Recommendation:*

We recommend the Office of the Governor strengthen controls over the review of the SF-425 report by ensuring a supervisory review is performed and documented. We further recommend that the agency obtain, review, and maintain supporting documentation for the amounts submitted as “unliquidated obligations” on the SF-425 report.

**End of Report**