



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

March 12, 2015

Financial Audit Management Report

Brent Christensen, Executive Director
Mississippi Development Authority
P. O. Box 849
Jackson, MS 39205

Dear Mr. Christensen:

Enclosed for your review are the financial audit findings for the Mississippi Development Authority for the Fiscal Year 2014. In these findings, the Auditor's Office recommends the Mississippi Development Authority:

1. Strengthen controls over the preparation of GAAP reporting packages; and
2. Ensure adequate segregation of duties within the accounting system.

Please review the recommendations and submit a plan to implement them by March 20, 2015. 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.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mississippi Development Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi Development Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

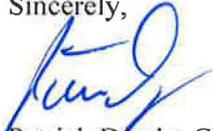
Mississippi Development Authority

March 12, 2015

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

Sincerely,



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 Development Authority for the year ended June 30, 2014. 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, Johnnie Davenport, Kristi Webb, Virginia Anderson, Kari Horn, and Taylor Phillips.

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

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Development Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Development Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 consider the deficiency identified in this letter as item 2014-003 to be a material weakness.

In addition, we noted a matter involving internal control that requires the attention of management. This matter is listed under the heading **OTHER CONTROL DEFICIENCY** as item 14-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Development Authority 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*.

MATERIAL WEAKNESS

Finding Number

Finding and Recommendation

2014-003

Controls over GAAP Reporting Packages Should Be Strengthened

Finding

During our review of the GAAP reporting packet for fund 34AE, the Mississippi Industry Incentive Fund, at the Mississippi Development Authority, we noted the following problems for which audit adjustments were proposed and subsequently made by agency personnel.

- An allowance for uncollectible loans receivable was not determined by the agency. This omission resulted in an overstatement of loans receivable in the amount of \$49,879,636.
- The current portion of the loans receivable account balance was overstated by \$2,890,746 and the noncurrent portion of the loans receivable account balance was understated by this same amount due to a classification error.
- The current portion of the loans receivable account balance was overstated by \$1,714,453 due to a receipt in transit being coded to the incorrect accounting fiscal year.

In addition, we noted the agency had other funds with loans receivable for which an allowance for uncollectible amounts had not been determined. After this was brought to management's attention, agency personnel determined that an additional adjustment was needed. The Department of Finance and Administration made a compilation adjustment in the amount of \$9,060,364 to record the allowance for uncollectible loans receivable for these other funds.

Generally accepted accounting principles require that an allowance for loan receivables be determined and recorded, and that loan balances be properly classified. In addition, Section 27.30.30 of the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual provides instructions for recording of loans receivable and the determination of the related allowance for uncollectible loan receivables. The failure to adequately follow generally accepted accounting principles could result in the financial statements being misstated.

Recommendation

We recommend the Mississippi Development Authority strengthen internal controls to ensure loans receivable recorded in GAAP reporting packets are fairly stated. All loans receivable should be reviewed and allowances for uncollectible loans receivable should be properly determined and recorded in the agency's GAAP reporting package.

OTHER CONTROL DEFICIENCY

Finding Number

Finding and Recommendation

14-01

Agency Should Ensure Adequate Segregation of Duties Within the Accounting System

Finding

We reviewed employee entry and approval levels established in the Statewide Automated Accounting System (SAAS) at the Mississippi Development Authority for fiscal year 2014. We noted there were 16 employees with entry capability and all agency approval levels required to process disbursement transactions from initiation to final agency approval. We also noted there were 15 employees with entry capability and all agency approval levels required to process revenue transactions. Further, it was noted there were six employees with entry capability and all agency approval levels required to process J2GR journal vouchers.

Good internal controls require adequate segregation of duties to ensure an employee does not have the authority to initiate, authorize, and record a transaction in the accounting system. Failure to adequately segregate duties could allow unauthorized or erroneous transactions to be recorded in the agency accounting system without being promptly detected.

Recommendation

We recommend the Mississippi Development Authority establish adequate segregation of duties in the agency's accounting system by ensuring no individuals have both input access and all agency levels of approval over disbursement, journal voucher, and receipt transactions.



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

April 3, 2015, 2015

Single Audit Management Report

Brent Christensen, Executive Director
Mississippi Development Authority
P. O. Box 849
Jackson, MS 39205

Dear Mr. Christensen:

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 Development Authority for the year ended June 30, 2014. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Johnnie Davenport, Kristi Webb, Virginia Anderson, Kelly Holtsinger, Kari Horn, and Taylor Phillips.

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.

Report on Compliance for Each Major Federal Program

We have audited the Mississippi Development Authority's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the federal programs selected for audit that are administered by the Mississippi Development Authority for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi Development Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. However, our audit does not provide a legal determination of the Mississippi Development Authority's compliance.

Results of Compliance Audit Procedures

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

Internal Control over Compliance

Management of the Mississippi Development Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mississippi Development Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mississippi Development Authority's internal control over compliance.

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. *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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Mississippi Development Authority

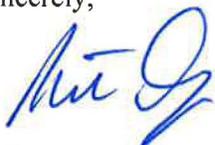
April 3, 2015

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Development Authority 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

End of Report