



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

March 7, 2016

**Financial Audit Management Report**

Glenn McCullough, Jr., Executive Director  
Mississippi Development Authority  
P. O. Box 849  
Jackson, MS 39205

Dear Mr. McCullough:

Enclosed for your review are the financial audit findings for the Mississippi Development Authority for the Fiscal Year 2015. In these findings, the Auditor's Office recommends the Mississippi Development Authority:

1. Strengthen controls over GAAP reporting of loans receivable;
2. Strengthen controls over GAAP reporting processes; and
3. Comply with state law regarding legislative notification for Mississippi Industry Incentive Financing Revolving Fund disbursements.

Please review the recommendations and submit a plan to implement them by March 21, 2016. 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 7, 2016

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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,

A handwritten signature in blue ink, appearing to read "Sallie Dier". The signature is fluid and cursive, with the first name "Sallie" and last name "Dier" clearly distinguishable.

Sallie Dier, CPA

Director, Financial and Compliance Audit Division

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, 2015. These financial statements will be 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, Selena Davis, CPA, Johnnie Davenport, Virginia Anderson, David Ashley, CISA, CISM, CBCP, CRISC, CHP and LaDonna Johnson, CISA.

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.

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. 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, identified in this letter as item 2015-013 that we consider to be a significant deficiency.

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 15-01.

### 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*. However, we noted a certain immaterial instance of noncompliance that requires the attention of management. This matter is listed under the heading **IMMATERIAL NONCOMPLIANCE AND OTHER MATTERS** as item 15-02.

## **SIGNIFICANT DEFICIENCY**

### **Finding Number**

### **Finding and Recommendation**

2015-013

### **Controls over GAAP Reporting of Loans Receivable Should Be Strengthened**

#### *Finding:*

During our review of the loans receivable recorded in the GAAP reporting packet for fund 634AE00000, 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 properly determined for a loan by the agency. This error resulted in an overstatement of loans receivable in the amount of \$21,118,950.
- A loan in the amount of \$13,000,000, which was made in fiscal year 2016, was incorrectly recorded as a loan receivable on the fiscal year 2015 GAAP reporting packet.

Generally accepted accounting principles require that loan balances, including an allowance for uncollectible loan receivables, be properly recorded. The basic accounting principle of conservatism should be used when determining estimates for the allowance for uncollectible loan amounts in order to ensure that loan balances are not overstated. 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 loans receivable. 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 and allowances for uncollectible loan receivables recorded in the GAAP reporting packets are fairly stated. Management should review the process each year for determining the allowance for uncollectible loans receivable to ensure the basic accounting principle of conservatism is adhered to. In addition, when circumstances and events occur after the submission of the GAAP reporting packet to the Department of Finance and Administration in which relevant factors differ from the assumptions used by management in determining the estimate for the allowance account, management should consider the impact on the accounting records and communicate these changes timely to the auditors.

**OTHER CONTROL DEFICIENCY**

**Finding Number**

**Finding and Recommendation**

15-01

**Controls over GAAP Reporting Processes Should Be Strengthened**

*Finding:*

During our audit of the subsidy, loan and grant expenditures for the Mississippi Development Authority, we reviewed the agency's internal controls over fiscal year end cut-off processes and performed testwork to ensure expenditures were recorded in the proper accounting period. Our testwork revealed the following problems.

- There was not a written policy in place to ensure contractors, subrecipients, and loan recipients turned in their fiscal year end requests for cash timely for the Economic Development Highway Fund (634HM00000) and the Mississippi Industry Incentive Financing Fund (634BJ00000).
- Two instances out of 10 items selected for testwork in the Economic Development Highway Fund were coded to the incorrect accounting period, resulting in a projected misstatement in the amount of \$2,947,227. These expenditures should have been accrued in fiscal year 2014.
- Three instances out of 10 items selected for testwork in the Mississippi Industry Incentive Financing Fund were coded to the incorrect accounting period, resulting in a known misstatement in the amount of \$3,000,391. These expenditures should have been accrued in fiscal year 2014.
- Four instances out of 68 items selected for testwork in the Community Development Fund (fund 5341X00000) were coded to the incorrect accounting period, resulting in a projected overstatement in the amount of \$1,077,255 and a known understatement in the amount of \$189,971, for a net likely misstatement amount of \$887,284. Three of these expenditures should have been accrued in fiscal year 2014 and one should have been accrued in 2015.

Good internal controls require that agencies have adequate fiscal year end cut-off procedures over the recording of transactions. In addition, generally accepted accounting principles (GAAP) require transactions to be recorded in the proper accounting period to ensure financial statements are materially correct. Failure to include expenditures in the proper accounting period could result in misstatements in the financial statements.

*Recommendation:*

We recommend the Mississippi Development Authority strengthen internal controls over GAAP reporting processes to ensure expenditures are recorded in the proper accounting period. The agency should develop policies and procedures to ensure contractors, loan recipients, and subrecipients submit fiscal year end requests for cash to the agency in a timely manner.

**IMMATERIAL NONCOMPLIANCE AND OTHER MATTERS**

**Finding Number**

**Finding and Recommendation**

15-02

Agency Should Comply with State Law regarding Legislative Notification for Mississippi Industry Incentive Financing Revolving Fund Disbursements

*Finding:*

During our review of the Mississippi Development Authority's Mississippi Industry Incentive Financing (MIIF) Fund (634BJ00000), we selected disbursements from nine projects for testwork. We noted the agency did not notify the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee of the approval of the grant or loan application for these nine projects. Section 57-1-221, Miss. Code Ann. (1972), states that the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee should be notified of the approval of the grant or loan application 30 days prior to the disbursement of any money for the loan or grant from the MIIF Revolving Fund. The notification should have identified the applicant and the purposes for which the loan or grant is made. The failure to notify the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee results in noncompliance with state law.

*Recommendation:*

We recommend the Mississippi Development Authority ensure that the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee are notified of the approval of the grant or loan application 30 days prior to the disbursement of any money for the loan or grant from the MIIF Revolving Fund. Documentation of this notification should be retained for audit purposes.

**End of Report**



**STATE OF MISSISSIPPI**  
PHIL BRYANT, GOVERNOR  
**MISSISSIPPI DEVELOPMENT AUTHORITY**  
GLENN MCCULLOUGH, JR.  
EXECUTIVE DIRECTOR

Single Audit Findings

Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
P. O. Box 956  
Jackson, MS 39205-0956

March 21, 2016

Dear Mr. Pickering:

This letter is in response to the Single Audit Management Report of the Mississippi Development Authority (MDA) for the fiscal year that ended June 30, 2015. Our response is as follows.

CFDA Number   Finding and Recommendation

**SUBRECIPIENT MONITORING**

**Control Deficiency**

14.228      Community Development Block Grant/State's Program  
Federal Award Number and Year: B-14-DC-28-0001; 2014

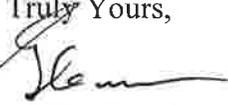
Oth-01      **Controls Should Be Strengthened over Subrecipient Monitoring**

**Response:** MDA concurs with the finding

**Corrective Action Plan:** The Compliance Bureau Manager will implement a stronger supervisory review and ongoing training for the staff person(s) responsible for the audit process while implementing the new OnBase System.

We appreciate the professional manner in which the audit team conducted the audit. If you have any questions concerning the response, please contact Steve Hardin at (601) 359-2366.

Very Truly Yours,

  
Glenn McCullough, Jr.  
Executive Director



**STATE OF MISSISSIPPI**  
PHIL BRYANT, GOVERNOR  
**MISSISSIPPI DEVELOPMENT AUTHORITY**  
GLENN MCCULLOUGH, JR.  
EXECUTIVE DIRECTOR

**Financial Audit Management Report**

March 22, 2016

Honorable Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
P. O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

A handwritten signature in cursive script that reads 'Stacey'.

This letter is in response to the findings during the Financial Audit Findings of the Mississippi Development Authority (MDA) for the fiscal year ended June 30, 2015. Our response is as follows:

**OTHER CONTROL DEFICIENCY**

**15-01      Controls over GAAP Reporting Processes Should Be Strengthened**

**Response:**

MDA Concurs with the findings.

**Corrective Action Plan:**

MDA may consider a written policy related to timely submission of invoices, however, in the environment of contractors we must wait on the contractors billing cycle.

While MDA strives to ensure all expenditures are coded to the correct Fiscal Year, there are times when payments may be coded to the incorrect Fiscal Year.

For example in the funds identified, 634BJ and 634HM- the projects in question (HA-054 and HA-046) were slow to reimburse due to monies not being received in a timely manner from MDOT. However, in both cases MDOT waited for

invoices from Grantee (City of Jackson) to be submitted before approving and sending to MDA for payment. When the requests were finally received the Department of Finance and Administration had already closed the FY which resulted in the payments being coded to FY 2016. MIIF grant agreements do have language that requests for payments be submitted within 3 years.

Three of the identified payments from fund 5341X00000 were coded to the incorrect Fiscal Year as a result of deadlines imposed by the Department of Finance and Administration for GAAP reporting purposes. The last one of the payments was incorrectly coded by agency staff.

MDA will continue its efforts to ensure all expenditures are coded to the correct FY and the necessary adjustments are made when it is not possible for expenditures to be coded correctly.

**IMMATERIAL NONCOMPLIANCE AND OTHER MATTERS:**

15-02

**Agency Should Comply With State Law Regarding Legislative Notification for Mississippi Industry Incentive Financing Fund Disbursements:**

**Response:**

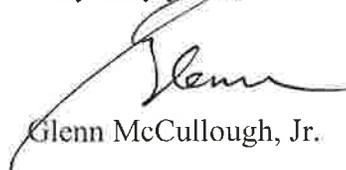
MDA Concur with the findings.

**Corrective Action Plan:**

MDA is currently implementing a new system that will automatically notify the mentioned parties at the time of the actual approval of the application on the MDA board meeting. This will be an automated process therefore will replace any human requirement to initiate this process. Also, we have identified an individual internally to perform internal audits of programs and to identify any compliance issues. Please note that all grants/loans are disclosed in the MDA MS Incentives Report that is issued each year in October.

We appreciate the professional manner in which the audit team conducted this audit. If you have any questions concerning this response, please contact Brian Daniel at (601) 359-2596.

Very truly yours,



Glenn McCullough, Jr.



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

March 7, 2016

**Single Audit Management Report**

Glenn McCullough, Jr., Executive Director  
Mississippi Development Authority  
P. O. Box 849  
Jackson, MS 39205

Dear Mr. McCullough:

Enclosed for your review are the other audit findings for the Mississippi Development Authority for Fiscal Year 2015. In these findings, the Auditor's Office recommends the Mississippi Development Authority strengthen controls over subrecipient monitoring.

Please review the recommendation and submit a plan to implement it by March 21, 2016. 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.

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 hope you find our recommendation enables 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,

A handwritten signature in blue ink, appearing to read "Sallie Dier".

Sallie Dier, CPA  
Director, Financial and Compliance Audit Division

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 Development Authority for the year ended June 30, 2015. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Selena Davis, CPA, Johnnie Davenport and Virginia Anderson.

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, 2015.

### **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 each 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 the 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.

However, we noted a deficiency in internal control over compliance that requires the attention of management that we have reported on the attached document "Other Audit Finding."

## OTHER AUDIT FINDING

In planning and performing our audit of the federal awards received by the Mississippi Development Authority for the year ended June 30, 2015, we considered internal control over compliance with the requirements that could have a direct and material effect on the major federal programs. A matter which requires the attention of management was noted. This matter which does 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 involves a control deficiency.

### CFDA/Finding Number

### Finding and Recommendation

#### SUBRECIPIENT MONITORING

#### *Control Deficiency*

14.228

Community Development Block Grants/State's program

Federal Award Number and Year: B-14-DC-28-0001; 2014

Oth-01

#### Controls Should Be Strengthened over Subrecipient Monitoring

#### *Finding:*

The Office of Management and Budget (OMB) *Circular A-133* states the pass-through entity is responsible for (1) ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that subrecipients take timely and appropriate corrective action on all audit findings. The Mississippi Development Authority ensures it meets this requirement by maintaining an audit log spreadsheet and reviewing the subrecipient's annual A-133 single audit report or reviewing and approving a completed Fund Certification Form (FCF), if the subrecipient expended less than the \$500,000 threshold.

For testwork performed on 20 subrecipients, we noted one instance in which the agency failed to review an audit received from a subrecipient in a timely manner. Agency personnel erroneously documented and cleared the subrecipient as exempt from submitting an A-133 single audit report by approving the FCF for expending less than \$500,000. It should be noted that agency personnel completed the review on this audit report on February 3, 2016, after this oversight was brought to the attention of management. The failure to review subrecipient A-133 single audits in a timely manner could result in the agency funding a subrecipient that did not comply with federal regulations.

*Recommendation:*

We recommend the Mississippi Development Authority strengthen controls over subrecipient monitoring to ensure that agency personnel perform timely reviews on each A-133 single audit report received.

**End of Report**



**STATE OF MISSISSIPPI**  
PHIL BRYANT, GOVERNOR  
**MISSISSIPPI DEVELOPMENT AUTHORITY**  
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**Financial Audit Management Report**

March 22, 2016

Honorable Stacey E. Pickering, State Auditor  
Office of the State Auditor  
State of Mississippi  
P. O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

A handwritten signature in black ink that reads "Stacey".

This letter is in response to the findings during the Financial Audit Findings of the Mississippi Development Authority (MDA) for the fiscal year ended June 30, 2015. Our response is as follows:

**MATERIAL WEAKNESS**

**2015-013 Controls over GAAP Reporting of Loans Receivable Should Be Strengthened**

**Response:**

MDA concurs with the finding.

**Corrective Action Plan:**

At the time the allowance for uncollectible accounts was set up, MDA still had equipment for sale and two other pending lawsuits that were available for recourse. This was the best estimate at the time. In future instances and based on the circumstances, MDA will use a conservative approach as required by GAAP when determining balances for uncollectible amounts. Also, MDA will notify the State Auditor's office of potential uncollectible loans that may affect financial

Honorable Stacey Pickering  
March 22, 2016  
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reporting. Since this was a unique situation, and at the time of an uncollectible account was set up there was a potential for recourse, there was no past precedence set for determining uncollectible accounts, and an acceptable method by the banking industry was used for the determination of uncollectible accounts, MDA made the best determination at the time for uncollectible accounts.

As for the dates on the Grenada Rail disbursement, this loan was being worked on by the agency along with several other concerned parties starting in early 2015. The original loan closing was anticipated to happen in June of 2015, this date was pushed back due to negotiations and when the revised loan closing was scheduled, agency staff inadvertently coded the expenditure to FY 2015.

We appreciate the professional manner in which the audit team conducted this audit. If you have any questions concerning this response, please contact Brian Daniel at (601) 359-2596.

Very truly yours,



Glenn McCullough, Jr.

GM:bd