



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR

PHIL BRYANT
State Auditor

RAMONA HILL, CPA
Director, Department of Audit

BRENT BALLARD, CPA
Director, Division of College and University Audits

ALCORN STATE UNIVERSITY

Audited Financial Statements
For the Year Ended June 30, 1996

ALCORN STATE UNIVERSITY

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INSTITUTION'S RESPONSE

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ALCORN STATE UNIVERSITY

FINANCIAL AUDIT REPORT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT

August 15, 1997

Board of Trustees
Institutions of Higher Learning
Jackson, Mississippi

We have audited the accompanying balance sheet of Alcorn State University as of June 30, 1996, the related statement of changes in fund balances and the statement of current fund revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of Alcorn State University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alcorn State University at June 30, 1996, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Federal Financial Assistance listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Alcorn State University. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated August 15, 1997 on our consideration of Alcorn State University's internal control structure and a report dated August 15, 1997 on its compliance with laws and regulations.

A handwritten signature in cursive script that reads "Ramona Hill".

RAMONA HILL, CPA
Director, Department of Audit

ALCORN STATE UNIVERSITY

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ALCORN STATE UNIVERSITY

AUDITED FINANCIAL STATEMENTS

ALCORN STATE UNIVERSITY
 Balance Sheet
 June 30, 1996
 (With Comparative Figures at June 30, 1995)

Exhibit A

ASSETS	Current Year	Prior Year	LIABILITIES AND FUND BALANCES	Current Year	Prior Year
Current Funds			Current Funds		
Current Unrestricted Funds:			Current Unrestricted Funds:		
Cash and other deposits (Note 5)	\$ 9,433,913	8,677,958	Accounts payable and accrued expenses	\$ 804,036	1,261,114
Accounts receivable:			Accrued leave (Note 3)	897,951	829,682
Students, less allowance of			Deposits refundable	267,284	177,334
\$4,306,872 (1996) and			Due to other funds	4,027,470	2,270,087
\$4,261,978 (1995)	329,677	325,739	Deferred credits	769,336	700,194
Other	195,945	146,848	Other liabilities		
Inventories	60,817	64,624	Fund balances:		
Prepaid items and deferred charges	429,302	441,158	Unallocated		
Due from other funds	8,982,496	8,893,418	General	9,371,738	8,841,172
			Designated	1,460,095	834,732
			Auxiliary	1,834,240	1,635,430
Total Current Unrestricted Funds	<u>19,432,150</u>	<u>16,549,745</u>	Total Current Unrestricted Funds	<u>19,432,150</u>	<u>16,549,745</u>
Current Restricted Funds:			Current Restricted Funds:		
Cash and other deposits (Note 5)	838,877	601,293	Accounts payable and accrued expenses	136,043	454,699
Other accounts receivable	2,876,065	6,119,850	Accrued leave (Note 3)	320,468	300,312
Prepaid items and deferred charges	82,078		Due to other funds	5,476,053	5,523,370
Due from other funds	445,884	829,271	Deferred credits	46,882	1,825,862
			Other liabilities		
			Fund balance:		
Total Current Restricted Funds	<u>4,242,904</u>	<u>7,550,414</u>	Allocated	(1,736,542)	(553,829)
			Total Current Restricted Funds	<u>4,242,904</u>	<u>7,550,414</u>
Total Current Funds	<u>\$ 23,675,054</u>	<u>24,100,159</u>	Total Current Funds	<u>\$ 23,675,054</u>	<u>24,100,159</u>
Loan Funds			Loan Funds		
Cash and other deposits (Note 5)	\$ 113,706	49,262	Accounts payable and accrued expenses	\$ 2,825	5,272
Accounts receivables:			Fund balances:		
Other, less allowance of \$149,070 (1996 and 1995)	17,503	8,437	Federal	243,957	291,366
Notes receivable:					
Federal student loans, less allowance of					
\$1,541,095 (1996) and					
\$1,503,976 (1995) (Note 8)	52,224	170,434			
Due from other funds	63,349	68,505			
Total Loan Funds	<u>\$ 246,782</u>	<u>296,638</u>	Total Loan Funds	<u>\$ 246,782</u>	<u>296,638</u>
Endowment and Similar Funds			Endowment and Similar Funds		

Land grant principle (Note 7)	\$	209,871	209,871	Fund balances:			
				Endowment	\$	209,871	209,871
Total Endowment & Similar Funds	\$	<u>209,871</u>	<u>209,871</u>	Total Endowment & Similar Funds	\$	<u>209,871</u>	<u>209,871</u>
Plant Funds				Plant Funds			
Cash and other deposits (Note 5)	\$	165,924	165,166	Bonds payable (Note 9)	\$	220,000	263,000
Investments (Note 6)		284,828	376,665	Fund balances:			
Land		245,790	245,790	Renewals and replacements		240,261	277,230
Improvements other than buildings		1,561,893	1,253,014	Retirement of indebtedness		210,491	264,601
Buildings		41,340,170	40,781,665	Net investment in plant		70,446,611	61,402,324
Furniture, machinery and equipment		9,361,003	8,325,058				
Books and films		10,333,705	10,148,212				
Livestock		68,006	57,582				
Construction in progress (Note 11)		<u>7,756,044</u>	<u>854,003</u>				
Total Plant Funds	\$	<u>71,117,363</u>	<u>62,207,155</u>	Total Plant Funds	\$	<u>71,117,363</u>	<u>62,207,155</u>
Agency Funds				Agency Funds			
Cash and other deposits (Note 5)	\$	232,705	81,089	Accounts payable and accrued expenses	\$	39,569	
Due from other funds		11,794	2,263	Due to depositors		350,643	199,274
Deferred compensation plan assets at fair market value (Note 16)		145,713	110,687				
Due from depositors			<u>5,235</u>				
Total Agency Funds	\$	<u>390,212</u>	<u>199,274</u>	Total Agency Funds	\$	<u>390,212</u>	<u>199,274</u>

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

ALCORN STATE UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1996

Exhibit B

	Current Funds			Loan Funds	Endowment and Similar Funds	Plant Funds			
	Unrestricted	Restricted	Total			Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenues and Other Additions									
Tuition and fees	\$ 8,097,673		8,097,673						
State appropriations	18,165,068		18,165,068			9,835,507			
Federal grants and contracts		13,277,330	13,277,330						
State grants and contracts		364,924	364,924						
Private gifts, grants & contracts		146,670	146,670						
Investment income	351,906		351,906				8,341	7,421	
Interest on loans receivable				18,490					
Additions to plant facilities									9,412,675
Retirement of indebtedness									43,000
Sales and services of educational activities	630,175		630,175						
Sales and services of auxiliary activities	5,516,323		5,516,323						
Other	573,939		573,939						
Total Rev. & Other Additions	<u>33,335,084</u>	<u>13,788,924</u>	<u>47,124,008</u>	<u>18,490</u>		<u>9,835,507</u>	<u>8,341</u>	<u>7,421</u>	<u>9,455,675</u>
Expenditures & Other Deductions									
Educational and general:									
Instruction	11,532,147	2,384,030	13,916,177						
Research	452,840	3,415,947	3,868,787						
Public service	2,502,982	2,114,181	4,617,163						
Academic support	1,367,481		1,367,481						
Student services	2,322,041		2,322,041						
Institutional support	2,219,850	360,534	2,580,384						
Operation & maint. of plant	2,833,482		2,833,482						
Student aid	3,374,524	5,309,215	8,683,739						
Total Educational and General	<u>26,605,347</u>	<u>13,583,907</u>	<u>40,189,254</u>						
Auxiliary	5,175,967		5,175,967						
Loan cancellations and write-offs				21,317					
Collection costs				6,428					
Trustee fees expense								601	
Repairs and maintenance						2,823,338			
Expended for plant facilities						7,012,169			
Plant assets sold or retired									995,392
Retirement of indebtedness								43,000	
Interest on indebtedness								8,426	
Provision for uncollectible accts.	44,894		44,894	37,119					
Provision for accrued leave	68,269	20,156	88,425						
Other				1,035					
Total Expenditures and Other Deductions	<u>31,894,477</u>	<u>13,604,063</u>	<u>45,498,540</u>	<u>65,899</u>		<u>9,835,507</u>		<u>52,027</u>	<u>995,392</u>

Transfers - Additions (Deductions)

Mandatory:									
Principal and interest	(52,027)		(52,027)				52,027		
Restricted fund matching	<u>(79,151)</u>	<u>79,151</u>							
Total Mandatory	<u>(131,178)</u>	<u>79,151</u>	<u>(52,027)</u>				<u>52,027</u>		
Other:									
Other	<u>45,310</u>		<u>45,310</u>			<u>(45,310)</u>			
Total Other	<u>45,310</u>		<u>45,310</u>			<u>(45,310)</u>			
Total Transfers	<u>(85,868)</u>	<u>79,151</u>	<u>(6,717)</u>			<u>(45,310)</u>	<u>52,027</u>		
Net Increase (Decr.) for Year	<u>1,354,739</u>	<u>264,012</u>	<u>1,618,751</u>	<u>(47,409)</u>		<u>(36,969)</u>	<u>7,421</u>	<u>8,460,283</u>	
Fund Balance at Beg. of Year									
As Previously Reported	11,311,334	(553,829)	10,757,505	291,366	209,871	277,230	264,601	61,402,324	
Adjustments (Note 4)		<u>(1,446,725)</u>	<u>(1,446,725)</u>				<u>(61,531)</u>	<u>584,004</u>	
Restated	<u>11,311,334</u>	<u>(2,000,554)</u>	<u>9,310,780</u>	<u>291,366</u>	<u>209,871</u>	<u>277,230</u>	<u>203,070</u>	<u>61,986,328</u>	
Fund Balance at End of Year	\$ <u><u>12,666,073</u></u>	<u><u>(1,736,542)</u></u>	<u><u>10,929,531</u></u>	<u><u>243,957</u></u>	<u><u>209,871</u></u>	<u><u>0</u></u>	<u><u>240,261</u></u>	<u><u>210,491</u></u>	<u><u>70,446,611</u></u>

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

ALCORN STATE UNIVERSITY
Statement of Current Fund Revenues, Expenditures and Other Changes
For the Year Ended June 30, 1996
(With Comparative Figures for the Year Ended June 30, 1995)

Exhibit C

	Current Year			Prior Year	
	Unrestricted	Restricted	Total	Total	
Revenues and Other Additions					
Tuition and fees	\$ 8,097,673		8,097,673	7,389,096	
Federal appropriations				22,600	
State appropriations	18,165,068		18,165,068	17,873,365	
Federal grants and contracts		13,277,330	13,277,330	12,515,683	
State grants and contracts		227,426	227,426	91,411	
Private gifts, grants and contracts				393,353	
Investment income	351,906		351,906	351,387	
Sales and services of educational activities	630,175		630,175	812,771	
Sales and services of auxiliary activities	5,516,323		5,516,323	5,122,233	
Other	573,939		573,939	757,227	
Total Revenues and Other Additions	33,335,084	13,504,756	46,839,840	45,329,126	
Expenditures & Mandatory Transfers					
Educational and general:					
Instruction	11,532,147	2,384,030	13,916,177	11,630,884	
Research	452,840	3,415,947	3,868,787	3,994,241	
Public service	2,502,982	2,114,181	4,617,163	2,153,849	
Academic support	1,367,481		1,367,481	1,421,891	
Student services	2,322,041		2,322,041	2,182,433	
Institutional support	2,219,850	360,534	2,580,384	3,136,306	
Operation & maintenance of plant	2,833,482		2,833,482	3,005,204	
Student aid	3,374,524	5,309,215	8,683,739	8,041,960	
Total Educational and General Expenditures	26,605,347	13,583,907	40,189,254	35,566,768	
Mandatory transfers:					
Principal and interest				36,825	
Restricted fund matching	79,151	(79,151)			
Total Educational and General	26,684,498	13,504,756	40,189,254	35,603,593	
Auxiliary enterprises:					
Expenditures	5,175,967		5,175,967	4,652,825	
Mandatory transfers:					
Principal and interest	52,027		52,027	52,428	
Total Auxiliary Enterprises	5,227,994		5,227,994	4,705,253	
Total Expenditures and Mandatory Transfers	31,912,492	13,504,756	45,417,248	40,308,846	
Other Transfers - Additions (Ded.)					
Excess restricted receipts over expenditures & mandatory transfers		284,168	284,168	3,875	
Other	45,310		45,310		
Provision for uncollectible accounts	(44,894)		(44,894)	(32,814)	
Provision for accrued leave	(68,269)	(20,156)	(88,425)	(76,908)	
Total Other Transfers - Additions (Deductions)	(67,853)	264,012	196,159	(105,847)	
Net Change in Fund Balance	\$ 1,354,739	264,012	1,618,751	4,914,433	

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

ALCORN STATE UNIVERSITY

Summary of Significant Accounting Policies For the Year Ended June 30, 1996

The significant accounting policies followed by Alcorn State University are described below to enhance the usefulness of the financial statements to the reader.

(1) Basis of Accounting.

The financial statements have been prepared generally in accordance with the accounting principles outlined in the Financial and Reporting Manual for Higher Education, and the American Institute of Certified Public Accountants Industry Audit Guide on Audits of Colleges and Universities.

The accompanying financial statements have been prepared generally on the accrual basis with the following exceptions, which are common practices in colleges and universities:

- A. Depreciation on physical plant and equipment has not been provided.
- B. To the extent that Current Funds are used to finance plant assets, the amounts so provided are accounted for as (a) expenditures, in the case of normal acquisition and/or replacement of moveable equipment and library books; (b) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewals and replacements; and (c) transfers of a nonmandatory nature for all other cases.
- C. Interest on student loans is recorded only when received.
- D. Interest expense on debt is recorded when paid.

Gifts, grants and pledges are generally recorded when received or when billable.

Investments are recorded at cost if purchased or if acquired by gift at fair market value at the time of donation.

Property, buildings and equipment are stated at cost at the date of acquisition or fair market value at date of donation. Improvements made as part of repair and renovation projects are capitalized based upon institution estimates which approximate cost. Public domain (infrastructure) fixed assets consisting of certain improvements other than buildings, such as roads, bridges, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the institution, are capitalized.

Merchandise for resale inventories and consumable supply inventories are stated at cost, with cost being determined principally by the first-in, first-out method. Livestock inventories are valued at anticipated net realizable value.

All revenues and related expenditures incurred in connection with summer sessions are reported within the fiscal year in which the summer sessions are predominantly conducted.

Service activities at the institution are those activities which provide general services benefiting many funds. Service activities include a printing and supply center, a telephone exchange and a central storeroom. Such activities are maintained during the fiscal year as Auxiliary Funds for management purposes. These activities' expenditures are allocated to other funds based upon a user charge system. At fiscal year-end, any over or under allocation made during the year is closed to institutional support in the Current Unrestricted Fund.

ALCORN STATE UNIVERSITY

Summary of Significant Accounting Policies
For the Year Ended June 30, 1996

(2) Fund Accounting.

In order to insure observance of limitations and restrictions placed on the use of the resources available, the accounts of the institution are maintained in accordance with the principles of "fund accounting." This accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The Current Funds are used primarily to account for transactions which are expended in performing the primary and support objectives of the institution.

Current Funds consist of the following:

- A. The Unrestricted Fund which is used to account for:
 - 1. The appropriated budget as approved by the Mississippi State Legislature and the Board of Trustees of State Institutions of Higher Learning.
 - 2. The unrestricted resources designated for specific purposes by the institution's administration.
 - 3. The transactions of substantially self-supporting activities that primarily provide services for students, faculty and staff.
- B. The Restricted Fund which is used to account for Current Funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

Other funds consist of the following:

- A. The Loan Funds are used to account for loans to students. Resources to provide loans are derived primarily from the federal government. Provisions of the federal loan program stipulate that:
 - 1. The institution's matching share is one-third of the federal contributions.
 - 2. A portion of the loan principal and interest (maximum of 30% per year) will be canceled and absorbed by the federal government, if the recipient completes certain employment requirements.
- B. Endowment Funds receive funds from a donor with the restriction that only the income is to be expended.
- C. The Plant Funds which are used to account for the transactions relating to institution physical properties include:
 - 1. The Unexpended Plant Fund which is comprised of amounts which have been appropriated or designated for the purchase of institution physical properties or the repair and maintenance of such physical properties.

ALCORN STATE UNIVERSITY

Summary of Significant Accounting Policies
For the Year Ended June 30, 1996

2. The Renewals and Replacements Plant Fund which represents reserves to provide for maintenance and equipment replacement, established primarily pursuant to terms of bond indentures.
 3. The Retirement of Indebtness Plant Fund which represents resources held for the retirement of and interest on debt and includes sinking funds established under bond indentures and note and lease amortization payments accumulated, but not yet due.
 4. The Investment in Plant Fund which represents the total physical properties in service by the institution and all construction in progress as well as any associated liabilities.
- D. Agency Funds account for assets held by the institution as custodian or fiscal agent for others. Consequently, the transactions of this fund do not affect the statement of changes in fund balances.

ALCORN STATE UNIVERSITY

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ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1996

(1) Financial Reporting Entity.

In accordance with Governmental Accounting Standards Board Statement Number 14, the Alcorn State University Building Corporation is deemed a component unit of the institution.

The Corporation is a nonprofit corporation incorporated in the state of Mississippi with the approval of the Board of Trustees of State Institutions of Higher Learning. The purpose of the corporation is for the acquisition, construction, and equipping of facilities and land for the institution. The Board of Directors of the Corporation is composed of designated officers of the institution.

(2) Appropriations - General Operations.

Alcorn State University is a state supported institution that receives annual appropriations for operations from the state of Mississippi. The laws of the state and the policies and procedures specified by the state for state agencies and institutions are applicable to the activities of the institution.

(3) Accrued Leave.

Twelve-month employees earn annual personal leave at a rate of 12 hours per month for zero to three years of service; 14 hours per month for three to eight years of service; 16 hours per month for eight to 15 years of service; and from 15 years of service and over, 18 hours per month are earned. There is no requirement that annual leave be taken and there is no maximum accumulation. At termination, these employees are paid for up to 240 hours of accumulated annual leave.

Nine-month employees earn major medical leave at a rate of 13 1/3 hours per month for one month to three years of service; 14 1/5 hours per month for three to eight years of service; 15 2/5 hours per month for eight to 15 years of service; and from 15 years of service and over, 16 hours per month are earned. There is no limit on the accumulation of sick leave. At retirement, these employees are paid for up to 240 hours of accumulated major medical leave.

The liability for accrued leave at June 30, 1996, as reported in the Current Funds, was as follows:

Accumulated annual leave	\$ 1,102,576
Accumulated major medical leave	<u>115,843</u>
Total	<u>\$ 1,218,419</u>

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1996

(4) Prior Period Adjustments.

For the year ended June 30, 1996, the institution recorded prior period adjustments which consisted of the following additions and deductions to the various fund balances:

<u>Explanation</u>	<u>Additions (Deductions)</u>
Current Restricted Fund: To correct misstatements of accounts receivable balances. These misstatements arose from prior year posting errors.	\$ <u>(1,446,725)</u>
Retirement of Indebtedness Fund: To correct a prior year audit adjustment that misstated cash book balances.	\$ <u>(61,531)</u>
Investment In Plant Fund: To correct misstatements of the buildings' fixed assets. The buildings' inventory was understated at year end due to prior year posting errors.	\$ <u>584,004</u>

(5) Cash and Other Deposits.

For financial statement purposes cash and other deposits are represented by demand accounts and time deposits such as savings accounts, certificates of deposit and money market funds. Also included in this account are imprest cash accounts held by the institution. The carrying amount of the institution's cash and other deposits at June 30, 1996, was \$10,785,125 and the depository balance, including accrued interest of \$50,963, was \$13,555,385. The portion of such depository balances covered by federal depository insurance or by collateral held by the institution or its agent was \$577,170. The amount of \$12,978,215 was collateralized with securities held by a pledging financial institution's trust department or agent but not in the institution's name.

(6) Investments.

The following table presents the carrying and market value of investments by type and categorizes the carrying amounts as follows: category 1 are those which are insured or registered, or held by the institution or its agent; category 2 are those which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the name of the institution; and, category 3 are those which are uninsured or unregistered, with securities held by the counterparty or by its trust department or its agent but not in the name of the institution.

	<u>Category</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>-1-</u>	<u>-2-</u>	<u>-3-</u>		
U.S. Government Securities	\$ <u>284,828</u>			<u>284,828</u>	<u>284,828</u>
Total	\$ <u>284,828</u>	<u>0</u>	<u>0</u>	<u>284,828</u>	<u>284,828</u>

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1996

(7) Endowment Fund Investment - Land Grant Principal.

Endowment Fund investments include the land grant principal fund of \$209,871. The state legislature makes an annual appropriation from the state General Fund which approximates 6% interest on this asset.

(8) Notes Receivable From Students.

Notes receivable from students are payable in installments over a period of up to ten years, commencing three to 12 months from the date of separation from the institution. The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the institution at June 30, 1996:

	Interest Rates		Unpaid Balance 6-30-96
Perkins student loans	3% - 5%	\$	1,593,319
Less: Allowance for doubtful accounts			<u>1,541,095</u>
Net Notes Receivable		\$	<u><u>52,224</u></u>

(9) Long-term Debt.

The institution has long-term obligations of the following:

Description and Purpose	Original Issue	Annual Interest Rate	Maturity Date	Amount Owed at 6-30-96
Bonded Debt:				
Revenue Bonds:				
Student/faculty bonds of 1959	\$ 385,000	2.875%	11/1999	\$ 59,000
Dormitory bonds of 1962	560,000	3.50%	6/2001	110,000
Student Union bonds of 1964	<u>200,000</u>	3.50%	11/2002	<u>51,000</u>
Total Bonded Debt	<u>\$ 1,145,000</u>			<u>\$ 220,000</u>

Year Ending June 30	Bonds
1997	\$ 50,008
1998	50,558
1999	51,077
2000	49,666
2001	29,155
Later years	<u>10,070</u>
Total	240,534
Less: Amounts Representing Interest	<u>20,534</u>
Total at Present Value	<u>\$ 220,000</u>

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1996

(10) Operating Leases.

Leased property under operating leases is composed of one agreement to lease 45 acres of land in Bolivar County (Mississippi) for the operation of a demonstration farm and training center. The following is a schedule by years of the future minimum rental payments required under this operating lease:

Year Ending June 30	Amount
1997	\$ 1,800
1998	1,800
1999	1,800
2000	1,800
2001	1,800
Remaining years	25,200
Total Minimum Payments Required	\$ 34,200

The total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the fiscal year ending June 30, 1996, was \$15,576.

(11) Construction Commitments and Financing.

The institution has contracted for the construction of the following projects. The remaining costs are to be funded by state appropriations funded through the Bureau of Building, Grounds and Real Property Management.

Project	Cost to Complete
Construction of a math/science building	\$ 3,944,467
Construction of a physical plant/warehouse	355,230
Construction of a nursing school dormitory	2,120,318
Construction of a library addition	433,059
Total	\$ 6,853,074

(12) Pension Plan.

Plan Description. The institution contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1996

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the State of Mississippi Legislature. The institution's contributions to PERS for the years ending June 30, 1996, 1995 and 1994 were \$1,750,117, \$1,588,130 and \$1,338,649, respectively, equal to the required contributions for each year.

(13) Workers' Compensation Plan.

The university participates in a self-funded Workers' Compensation Plan (the Plan) along with the other public four-year universities of the state. The Plan exists in order to provide a mechanism for the State Institutions of Higher Learning (IHL) to fund and budget for the costs of providing Workers' Compensation benefits to eligible employees. The Plan does not pay benefits directly to employees. Rather, funds are set aside in trust and a third party Plan administrator is utilized to distribute the benefits to eligible employees. The assets of the Plan at June 30, 1996 were \$2,756,706.

A professionally licensed actuarial firm was contracted to prepare quarterly reports setting forth estimated reserves for the Plan. The June 30, 1996 quarterly report estimates that contingent liabilities exceeded Plan assets by \$2.235 million.

(14) Unemployment Trust Fund.

The university participates in a self-funded Unemployment Trust Fund (the Fund) along with the other public four-year universities of the state. The Fund exists in order to provide a mechanism for the State Institutions of Higher Learning (IHL) to fund and budget for the costs of providing unemployment compensation benefits to eligible former employees. The Fund does not pay benefits directly to former employees. Rather, it reimburses the Mississippi Employment Security Commission for benefits it pays directly to former IHL employees. The assets of the Fund at June 30, 1996 were \$806,346 and the liabilities were \$110,443.

A professional licensed actuarial firm was contracted to perform an actuarial analysis of the Fund as of June 30, 1996. They determined the recommended funding requirement as of June 30, 1996 is \$700,000 to \$1,000,000. Furthermore, they concluded that since the actual fund balance was \$695,903 and is, for practical purposes, equal to the lower end of the recommended range, that the Fund balance at June 30, 1996 is reasonable.

(15) Tort Liability Trust Fund.

The university participates in a self-funded Tort Liability Trust Fund (the Trust Fund) along with the other public four-year universities of the state. In accordance with Section 11-46 of Mississippi State Law, the Mississippi Tort Claims Board has authorized the Board of Trustees of State Institutions of Higher Learning (IHL Board) to establish a fund in order to self-insure a certain portion of its liability under the Mississippi Tort Claims Act. The IHL Board established the Trust Fund to provide for self-insurance.

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1996

Effective July 1, 1993, Mississippi statute permitted tort claims to be filed against the State Institutions of Higher Learning. A maximum limit of liability of \$50,000 per occurrence applies for claims or causes of action arising from acts or omissions occurring on or after July 1, 1993, but before July 1, 1997. There after the limit is increased to \$250,000 for the period July 1, 1997 through June 30, 2001, and is increased to \$500,000 after June 30, 2001.

The assets of the Trust Fund at June 30, 1996 were \$3,598,611 and the liabilities were \$1,882,100. A professionally licensed actuarial firm was contracted to perform an actuarial analysis of the Trust Fund as of June 30, 1996. They concluded that the program appears to be adequately funded with a margin of conservatism.

(16) Deferred Compensation Plan.

The institution, through the Mississippi Public Employees' Retirement System (PERS), offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the institution (without being restricted to the provisions of benefits under the plan), subject only to the claims of the institution's general creditors. Participants' rights under the plan are equal to those of general creditors of the institution in an amount equal to the fair market value of the deferred account for each participant.

The Mississippi Public Employees' Retirement System maintains the deferred compensation plan account in the name of the institution. The amount of assets held for participants employed by Alcorn State University as of June 30, 1996, was \$145,713.

(17) Foundation.

Alcorn State University Development Foundation, Inc. is an independent corporation formed for the purpose of receiving funds for the sole benefit of the institution. Following is a summary of the foundation's financial position at June 30, 1996, which amounts are not included in the financial statements of the institution:

Assets		Amount
Cash and investments	\$	6,274,973
Interest receivable		28,322
Pledges receivable		164,800
Other		375
		375
Total Assets	\$	6,468,470
Liabilities and Fund Balances		
Accounts payable	\$	33,800
Notes payable		400,000
Fund balances:		

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1996

Current Funds:	
Unrestricted	835,420
Designated	<u>5,199,250</u>
Total Liabilities and Fund Balances	\$ <u><u>6,468,470</u></u>

ALCORN STATE UNIVERSITY

SUPPLEMENTAL INFORMATION

ALCORN STATE UNIVERSITY
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1996

	CFDA NUMBER		DIRECT FEDERAL	FEDERAL FLOW- THROUGH	TOTAL REVENUES	TOTAL EXPENDITURES
Major Programs						
Research:						
Department of Agriculture						
Payments to 1890 Land-grant Colleges	10.205	\$	1,962,830		1,962,830	1,962,830
1890 Institution Capacity Building Grants	10.216		461,292		461,292	461,292
Agriculture Research - Basic and Applied Research	10.001		42,665		42,665	42,665
Resource Conservation and Development	10.901		148,653		148,653	148,653
Farmers Home Administration	N/A		30,637		30,637	30,637
Department of Health & Human Services						
Minority Biomedical Research Support	93.375		163,112		163,112	163,112
Nurse Training Improvement - Special Projects	93.359		163,951		163,951	163,951
Nursing Education - Opportunities for Individuals from Disadvantaged Backgrounds	93.178		123,356		123,356	123,356
Environmental Protection Agency						
Freshwater Bioturbators	N/A			48,439	48,439	48,439
Total Research			<u>3,096,496</u>	<u>48,439</u>	<u>3,144,935</u>	<u>3,144,935</u>
Student Financial Aid:						
Department of Education						
PELL Grant Program	84.063		3,756,763		3,756,763	3,756,763
Supplemental Education Opportunity Grants	84.007		854,692		854,692	854,692
College Work-study Program	84.033		650,757		650,757	650,757
State Student Incentive Grants	N/A			30,922	30,922	30,922
Perkins Loan Program	84.038					6,428
Private lending institutions	N/A					5,023,819
Total Student Financial Aid			<u>5,262,212</u>	<u>30,922</u>	<u>5,293,134</u>	<u>10,323,381</u>
Other:						
Department of Education						
Title III - Strengthening Historically Black Colleges and Universities	84.031		1,432,524		1,432,524	1,432,524
Department of Agriculture						
Cooperative Extension - Food and Agricultural Act	10.500		1,665,834		1,665,834	1,665,834
Total Other			<u>3,098,358</u>		<u>3,098,358</u>	<u>3,098,358</u>
Total Major Programs			<u>11,457,066</u>	<u>79,361</u>	<u>11,536,427</u>	<u>16,566,674</u>

Other Federal Assistance				
Department of Agriculture				
Technical Assistance and Training Grants	10.436	372,790	372,790	372,790
AG Hope Program	N/A	25,434	25,434	25,434
Children's Youth Network	N/A	7,629	7,629	7,629
Increasing Students Retention	N/A	19,690	19,690	19,690
Trace Monitor Intervention	N/A	13,623	13,623	13,623
Department of Education				
Student Support Services	84.042	147,928	147,928	147,928
Upward Bound	84.047	274,075	274,075	274,075
National Youth Sports Program	N/A	30,038	30,038	30,038
Department of Defense				
U.S. Army ROTC Project	12.000	244,551	244,551	244,551
Flood Control Projects	12.106	124,449	124,449	124,449
Department of Energy				
Pre-Freshman Enrichment Project	81.047	(202)	(202)	(202)
Summer Prep Camp	N/A	23,674	23,674	23,674
Corporation for Public Broadcasting	N/A	118,948	118,948	118,948
National Aeronautical Space Administration				
Aerospace Education Services Project	43.001	10,160	10,160	10,160
National Science Foundation				
USM Mini-Grant Project	N/A		819	819
Department of Labor	17.200	66,531	66,531	66,531
Environmental Protection Agency	66.951	32,685	32,685	32,685
Total Other Federal Assistance		<u>1,740,084</u>	<u>819</u>	<u>1,740,903</u>
Total Federal Financial Assistance		<u>\$ 13,197,150</u>	<u>80,180</u>	<u>13,277,330</u>
				<u>18,307,577</u>

See accompanying Notes to Schedule of Federal Financial Assistance.

ALCORN STATE UNIVERSITY

Notes to Schedule of Federal Financial Assistance
For the Year Ended June 30, 1996

A. Basis of Presentation.

The accompanying Schedule of Federal Financial Assistance (the schedule) has been generally prepared in the format as set forth in Statement of Position 92-9. The purpose of the schedule is to present a summary of those activities represented by Alcorn State University for the year ended June 30, 1996, which have been financed by the U.S. Government (federal awards). For the purposes of the schedule, federal awards include all federal assistance and procurement relationships entered into directly between Alcorn State University and the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. Because the schedule presents only a selected portion of the activities of Alcorn State University, it is not intended to and does not present either the financial position or the changes in fund balances of Alcorn State University.

In accordance with Office of Management and Budget (OMB) Circular A-133, federal awards are classified as follows:

Major Programs - Total federal program expenditures, exclusive of Federal Direct, Stafford and Perkins Loans advanced, are the larger of three percent of total federal funds expended or \$100,000.

Research and Development
Student Financial Aid (SFA)
Other:
Title III
Cooperative Extension

Other Federal Assistance - Federal awards that do not meet the definition of major programs.

For purposes of this schedule, SFA expenditures include the total of loans advanced from the various loan programs. These loans are not reported as expenditures on the financial statements but as an increase in notes receivable.

The "Private Lending Institutions" category in the SFA section includes loans made directly to students from the Stafford Loan Program, Supplemental Loans for Students Program and Parents Loans for Undergraduate Students program.

Individual awards within each category of federal awards are identified by CFDA number and program name if the award is individually significant to the category of award. All other awards are presented in total by funding agency.

B. Revenue and Expenditure Recognition.

Revenue is recognized when received or when earned by the institution.

Deductions (expenditures) for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Moreover, expenditures include a portion of costs associated with general institution activities (indirect costs) which are allocated to federal awards under negotiated formulas commonly referred to as indirect cost rates.

Indirect costs and related revenues applicable to these cost recoveries are classified as unrestricted revenues and expenditures of the general purpose financial statements.

ALCORN STATE UNIVERSITY

COMPLIANCE REPORT ON MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

ALCORN STATE UNIVERSITY

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State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

COMPLIANCE REPORT ON MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

August 15, 1997

Board of Trustees
Institutions of Higher Learning
Jackson, Mississippi

We have audited the balance sheet of Alcorn State University as of June 30, 1996, the related statement of changes in fund balances, the statement of current fund revenues, expenditures and other changes and the schedule of federal financial assistance and have issued our report thereon dated August 15, 1997.

We have also audited Alcorn State University's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort or earmarking; reporting; claims for advances and reimbursements; monitoring subrecipients; cost allocation; special requirements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 1996, and have issued our report thereon dated August 15, 1997. The management of Alcorn State University is responsible for the institution's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States and OMB Circulars A-110 and A-133. Those standards and OMB Circulars A-110 and A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the institution's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed instances of noncompliance with the requirements referred to above, which are described in the accompanying "Schedule of Findings and Recommendations." We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Alcorn State University complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort or earmarking; reporting; claims for advances and reimbursements; monitoring subrecipients; cost allocation; special requirements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 1996.

This report is intended for the use of Alcorn State University, the cognizant audit agency and other agencies. This restriction is not intended to limit the distribution of this report which is a matter of public record.

A handwritten signature in cursive script that reads "Ramona Hill".

RAMONA HILL, CPA
Director, Department of Audit

ALCORN STATE UNIVERSITY

REPORT ON INTERNAL CONTROL

ALCORN STATE UNIVERSITY

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State of Mississippi

OFFICE OF THE STATE AUDITOR

PHIL BRYANT
AUDITOR

REPORT ON INTERNAL CONTROL

August 15, 1997

Board of Trustees
Institutions of Higher Learning
Jackson, Mississippi

We have audited the balance sheet of Alcorn State University as of June 30, 1996, the related statement of changes in fund balances, the statement of current fund revenues, expenditures and other changes and the schedule of federal financial assistance and have issued our report thereon dated August 15, 1997. We have also audited the institution's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated August 15, 1997.

We conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circulars A-110 and A-133. Those standards and OMB Circulars A-110 and A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the institution complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit for the year ended June 30, 1996, we considered the institution's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the institution's financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-133.

The management of Alcorn State University is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Accounting Controls

- Revenue/cash receipts
- Purchasing/cash disbursements
- Payroll
- Property control
- Accrued Leave

Administration of Federal Financial Assistance Programs

General Requirements

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Drug-free workplace
- Financial reporting
- Allowable costs/cost principles
- Administrative requirements

Specific Requirements

- Types of services
- Eligibility
- Matching, level of effort
- Reporting
- Cost allocation
- Special requirements, if any
- Monitoring subrecipients

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation and we assessed control risk.

For the year ended June 30, 1996, the institution expended 90.49% of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls as required by OMB Circular A-133 to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the institution's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements or that could adversely affect the organization's ability to administer federal award programs in accordance with applicable laws and regulations.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected by employees in the normal course of performing their assigned functions.

We have identified 12 reportable conditions, six of which we consider to be material weaknesses as defined in the preceding paragraph. These matters are included in the accompanying "Schedule of Findings and Recommendations."

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended for the use of Alcorn State University, the cognizant audit agency and other agencies. This restriction is not intended to limit the distribution of this report which is a matter of public record.

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RAMONA HILL, CPA
Director, Department of Audit

ALCORN STATE UNIVERSITY

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ALCORN STATE UNIVERSITY

MANAGEMENT REPORT

ALCORN STATE UNIVERSITY

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State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

MANAGEMENT REPORT

August 15, 1997

Board of Trustees
Institutions of Higher Learning
Jackson, Mississippi

We have audited the balance sheet of Alcorn State University as of June 30, 1996, the related statement of changes in fund balances, the statement of current fund revenues, expenditures and other changes and the schedule of federal financial assistance for the year then ended and have issued our report thereon dated August 15, 1997. We conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards issued by the Comptroller General of the United States; the provisions of OMB Circulars

A-110 and A-133; the provisions of compliance features identified in the Department of Health and Human Services (DHHS) Guidelines for Audits of Federal Awards to Educational Institutions (guidelines); and the provisions of compliance features identified in the U.S. Department of Education Audit Guide for Student Financial Assistance Programs. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Laws and Regulations

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to Alcorn State University is the responsibility of the institution's management. As part of our audit, we performed tests of the institution's compliance with certain provisions of laws, regulations, contracts, grants and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

During the course of our audit, we noted no instances of noncompliance with the laws and regulations referred to above.

The results of our tests indicate that for the items tested, Alcorn State University had complied with those laws and regulations referred to above, noncompliance with which could have a material effect on the audited financial statements. For items not tested, nothing came to our attention that would lead us to believe Alcorn State University had not complied with the laws and regulations, noncompliance with which could have a material effect on the audited financial statements.

Compliance with Requirements of the Federal Financial Assistance Programs

A. Compliance with Specific Requirements for Major Programs.

Summary of Transactions for Major Programs.

1. Research.	<u>Number of Items</u>		<u>Total</u>
Universe	N/A	\$	3,144,935
Sample	54		204,621
2. Student Financial Aid.	<u>Number of Items</u>		<u>Total</u>
Universe	N/A	\$	10,323,381
Sample	80		148,919
3. Other Major Programs.			
A. Department of Education Title III - Strengthening Historically Black Colleges & Universities	<u>Number of Items</u>		<u>Total</u>
Universe	N/A	\$	1,432,524
Sample	52		274,894
B. Department of Agriculture Cooperative Extension - Food & Agricultural Act	<u>Number of Items</u>		<u>Total</u>
Universe	N/A	\$	1,665,834
Sample	36		40,333

For the items tested, we found seven instances of noncompliance with specific requirements of the major federal financial assistance programs which are described in the accompanying "Schedule of Findings and Recommendations."

B. Compliance with General Requirements.

We have applied procedures to test Alcorn State University's compliance with the following requirements applicable to each of its federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the year ended June 30, 1996:

1. Davis-Bacon Act
2. Political activity
3. Drug-free workplace
4. Civil rights
5. Cash management
6. Financial reporting
7. Allowable costs/cost principles
8. Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Audits of Institutions of Higher Learning. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the institution's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed three instances of noncompliance with the requirements listed in the preceding paragraph of this report and have identified these instances in the accompanying "Schedule of Findings and Recommendations." With respect to items not tested, nothing came to our attention that caused us to believe that Alcorn State University had not complied with those requirements.

C. Compliance with Specific Requirements for Nonmajor Programs.

In connection with our audit of the financial statements of Alcorn State University and with our study and evaluation of the internal control structure used to administer federal financial assistance programs, as required by OMB Circulars A-110 and A-133, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1996.

As required by OMB Circulars A-110 and A-133, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; and eligibility that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the institution's compliance with these requirements. Accordingly, we do not express such an opinion.

Summary of Transactions for Nonmajor Programs.

	<u>Number of Items</u>		<u>Total</u>
Universe	N/A	\$	1,740,903
Sample	2		16,964

With respect to the transactions tested, the results of those procedures disclosed no instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the transactions not tested, nothing came to our attention that caused us to believe that the institution had not complied, in all respects, with those requirements.

State Laws and Regulations

During the course of our audit, we noted no instances of noncompliance with state laws and regulations.

For items tested, the institution had complied with state laws and regulations. For items not tested, nothing came to our attention that would lead us to believe the institution had not complied with state laws and regulations.

Other Findings

During the course of our audit, certain matters were detected which require the attention of management. These matters, which do not have a material effect on the audited financial statements, include deviations from generally accepted accounting principles and other matters involving the internal control structure and its operation.

These findings are listed in the accompanying "Schedule of Findings and Recommendations."

Follow-up on Prior Year Findings

Government Auditing Standards require the auditor to disclose the status of known but uncorrected significant or material findings from prior audits. Any findings noted in the previous audit that were not corrected are presented in the "Schedule of Findings and Recommendations."

This report is intended for the use of Alcorn State University, the cognizant audit agency and other federal audit agencies. This restriction is not intended to limit the distribution of this report which is a matter of public record.

A handwritten signature in cursive script that reads "Ramona Hill".

RAMONA HILL, CPA
Director, Department of Audit

ALCORN STATE UNIVERSITY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

ALCORN STATE UNIVERSITY

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ALCORN STATE UNIVERSITY

Schedule of Findings and Recommendations
For the Year Ended June 30, 1996

Internal Control

Electronic Data Processing (EDP)

Material Weaknesses

A. Physical Security.

Finding

The mid-range computer system (IBM 4381) is not equipped with an alternate power source. The (IBM 4381) system currently runs the institution's payroll applications only.

Recommendation

An Uninterruptible Power System (UPS) should be installed to prevent and protect against power outages and power surges and to prevent disruption in service.

B. Disaster Recovery.

Finding

The institution's disaster recovery plan has not been tested for effectiveness.

Recommendation

A test plan must be developed prior to actual testing of the disaster recovery plan. This disaster recovery plan should be tested at least once a year and the documentation should be updated periodically with an appropriate plan of action.

Federal Grants and Contracts

Material Weaknesses

Finding

During fiscal year 1996-1997 and part of 1995-1996, we noted a potentially serious breakdown in communication between the institution's federal grants and payroll departments. This lack of cooperation resulted in over 40 federally paid employees having their monthly salaries and wages charged to incorrect project budgets. Most of these cases involved continuous-type projects that received new budgets and account numbers each year the project was in operation. The institution recognized the problem in June of 1997 and corrected future payroll costs to the proper project budget.

Recommendation

Communication between the institution's federal grants and payroll departments needs to be strengthened. Several times during the year, the two departments should review all federally funded employees' salaries and determine if they are being paid at the right rate and from the proper federal budget. The institution also needs to make the appropriate adjustments to the federal projects that had incorrect payroll costs charged to them during the periods leading up to June 1997.

ALCORN STATE UNIVERSITY

Schedule of Findings and Recommendations
For the Year Ended June 30, 1996

Financial Audit

Material Weaknesses

1. Finding

The institution used incorrect criteria for its June 30, 1996 vendor payable accrual. The institution accrued all unliquidated fiscal year 1996 purchase order encumbrances as payables. Over sixty percent of these accruals were paid with fiscal year 1997 expenditures. This incorrect treatment left both vendor payables and departmental expenditures overstated. We made audit adjustments to correct these overstatements and the balance sheet figures depicted in this report do not include these overstatements.

Recommendation

The institution should correct its year-end accrual methods. Vendor payables should only be accrued if either of the following criteria are met: (a) invoice is dated or received at or before year-end, and (b) goods are received or services performed at or before year-end.

2. Finding

The institution's bank statement reconciliation process has experienced several problems adapting to the new Banner software system. These problems caused long delays in the preparation of the fiscal year 1997 bank reconciliations. At the time of this report, the last reconciliation performed was for the month of September 1996. These time delays could severely hinder management's future financial decisions, which in many cases, depend on the knowledge of accurate cash position at any point in time.

Recommendation

The problems that the institution's bank statement reconciliation process has encountered interacting with the new Banner software system need to be addressed and corrected. Bank reconciliations need to be timely or they lose much of their effectiveness.

3. Finding

The June 30, 1996 bank statement reconciliation items entitled "over/under" deposit are clearing slowly during the first three months of fiscal year 1996-1997. "Over-deposits" represent bank recorded deposits that are greater than that which was recorded as receipts on the general ledger for a given time period. An "under-deposit" represents general ledger receipts that are greater than the total of deposits posted by the bank for a given period of time. Theoretically, these items should clear each other out in subsequent periods.

Recommendation

The institution needs to analyze these reconciling items and determine why they are not clearing out in a more timely manner.

ALCORN STATE UNIVERSITY

Schedule of Findings and Recommendations
For the Year Ended June 30, 1996

Federal Grants and Contracts

Reportable Conditions

1. Finding

Approximately 12.5 percent of the June 1996 Time and Effort Payroll Certification forms could not be located. Either they were never prepared or have been misplaced.

Recommendation

The institution needs to address its procedures in the file maintenance area of the Time and Effort Payroll Certification forms. A complete certification needs to be on file for each federally paid employee (in whole or part). This also includes bi-weekly paid personnel.

2. Finding

The controls which ensure that annual financial status reports are accurately prepared and submitted timely are not effective. Revised annual reports for fiscal year 1995-1996 have not been prepared and submitted for the institution's "Cooperative Extensions" (USDA - CFDA #10.500) and "C.S.R.C. - Evans Allen" (USDA) projects as of the date of this report. The original reports were filed timely, but contained incomplete data. The institution indicated this fact on the original reports.

Recommendation

The institution needs to prepare these revised annual financial reports and submit them to the appropriate federal agencies. In addition, the controls in place to ensure accurate and timely financial reports need to be strengthened.

Student Financial Aid

Reportable Conditions

Finding

Our examination of the institution's Title IV financial aid refunds issued during fiscal year 1995-1996 revealed several compliance exceptions:

- a. 30% of the Title IV refunds examined were incorrectly calculated. Combined incorrect refunds resulted in \$419.45 not being refunded back to the Title IV programs.
- b. 50% of the Title IV refunds examined were not distributed back to the appropriate Title IV programs in accordance with distribution priorities established in the Student Financial Aid Handbook.
- c. 70% of the Title IV refunds examined were not distributed back to the Title IV programs in a timely manner. The Student Financial Aid Handbook dictates that an institution must distribute a Title IV refund within 30-60 days of the student's official withdrawal date.

ALCORN STATE UNIVERSITY

Schedule of Findings and Recommendations
For the Year Ended June 30, 1996

Recommendation

The institution needs to continue to evaluate its Title IV financial aid refunds system. The refunds need to be calculated and distributed in accordance with Department of Education regulations. The Title IV program needs to be reimbursed for the undercharging of refunds described in compliance exception (a) above.

Financial Audit

Reportable Conditions

1. Finding

The payroll "check release" sheets were not consistently prepared by all of the institution's departments. These sheets document the receipt of pay checks by all department employees who are paid under the regular monthly or bi-weekly payroll runs. In addition, some department's check release sheet had only the receipt signature of the person entrusted with picking up the payroll checks and disbursing them to the department's employees.

Recommendation

Each department should be required to submit a properly completed "check release" sheet to the business office. These sheets should contain the signatures of all departmental employees. This would indicate the receipt of their pay check.

2. Finding

Controls set up to ensure the proper object coding of transactions were not consistently effective during fiscal year 1996. Approximately 7% of the disbursement transactions examined were incorrectly coded. These coding errors have the potential to materially effect the institution's future financial reports.

Recommendation

The institution needs to strengthen its controls over the object coding of disbursements.

3. Finding

During our evaluation of the institution's accrued leave internal controls system, we noted that there was an ineffective system of reconciliation between the "Applications for Leave" and "Monthly Leave Summary" reports. Over 30% of the employee leave records examined contained overstated year-end leave amounts due to the fact that the "Applications for Leave" were not always charged to the employee's "Monthly Leave Summary" report. The breakdown appears to be at the department level. It appears that not all department heads are performing the monthly reconciliations between these two reports.

Recommendation

The institution needs to evaluate its controls over its accrued leave accounting system. Department heads should reconcile the two aforementioned reports before they submit them to the personnel department for further processing.

ALCORN STATE UNIVERSITY

Schedule of Findings and Recommendations
For the Year Ended June 30, 1996

Specific Compliance with Major Federal Financial Assistance Programs

Federal Grants & Contracts

1. Finding

The institution overcharged \$11,405.38 in indirect costs to the USDA sponsored project entitled "ARS" (#58-640-1-112). Indirect costs were calculated using estimated direct costs at June 30, 1996. The project has since been officially closed as of the date of this report.

Recommendation

Indirect costs should be based upon accurate accumulated direct costs incurred by the project. The basis for the direct costs are generally stipulated in the individual grant agreements. The institution should return the overcharge to the USDA.

Questioned Cost

\$11,405.38

2. Finding

The institution overcharged \$3,500 to the Department of Education's Title III program entitled "Strengthening Communications Curriculum 96" (CFDA #84.031). The overcharge was a result of a duplicate vendor charge for satellite subscription services utilized by the program in fiscal year 1995-1996.

Recommendation

The Title III program should be reimbursed for the duplicate vendor charge.

Questioned Cost

\$3,500

3. Finding

The institution overcharged \$3,715.64 to the Department of Education's Title III program entitled "C.I.A.I.I.S. - 96" (CFDA #84.031). The overcharges stemmed from inflated overtime payments made to employees working for the project during the months of March and April 1996. These overtime payments were simply miscalculated.

Recommendation

The Title III program should be reimbursed for the overtime overcharges. Overtime pay should be based upon actual hours worked multiplied by the employee's hourly rate times one and one-half.

Questioned Cost

\$3,715.64

ALCORN STATE UNIVERSITY

Schedule of Findings and Recommendations
For the Year Ended June 30, 1996

4. Finding

The institution overcharged payroll costs to several federal projects during fiscal year 1995-1996. This was primarily a result of the communication problems described in Federal Grants and Contracts Material Internal Control Finding. In each of the following cases, the payroll department charged the incorrect federal project:

- a) USDA "Administration of Research- 96" (MISX-001) - \$23,565.86
- b) USDA "Enhancing Quantitative Skills- 96" (#93-38820-8724) - \$10,970.81
- c) H.H.S. "Optional Program to Improve Nursing- 95" (PGR-J 1 D19 NU 40008-01) - \$13,137.12

Recommendation

The three federal programs cited above should be reimbursed for the payroll overcharges incurred.

Questioned Costs

\$47,673.79

Specific Compliance with Major Federal Financial Assistance Programs

Student Financial Aid

1. Finding

Our examination of student financial aid records revealed one instance of a Title IV overaward in the amount of \$1,545. In this particular case, a student who never enrolled in the institution received aid for the Fall 1995 term.

Recommendation

The institution needs to return the \$1,545 to the Title IV financial aid programs. Controls to ensure that no student receives financial aid unless they are officially enrolled need to be strengthened.

Questioned Cost

\$1,545

2. Finding

Our examination of student financial aid records revealed one instance where a required financial aid transcript was never obtained. In this case, the student in question ultimately received \$2,340 in Title IV aid during fiscal year 1995-1996.

ALCORN STATE UNIVERSITY

Schedule of Findings and Recommendations
For the Year Ended June 30, 1996

Recommendation

The institution needs to take the steps to obtain the required financial aid transcript. If the transcript cannot be obtained, then the institution needs to reimburse the Title IV program the full amount.

Questioned Costs

\$2,340

3. Finding

The institution could not document the existence of written job descriptions for the recipients of the Federal Work-study (FWS) program. These job descriptions are a required compliance item under the program's specific guidelines.

Recommendation

The institution needs to locate these missing written job descriptions. The job descriptions must also be updated to include current working positions.

General Requirements

Federal Grants & Contracts

1. Finding

The institution maintained excess cash in its Cooperative Extension (USDA) program during the period of May through June 1996. Federal funds drawn down exceeded incurred program costs at a maximum of \$159,201.28 on May 1, 1996 and declining amounts thereafter until the end of June 1996, when the excess was fully eliminated.

Recommendation

The institution needs to more closely monitor its drawdown needs. Federal funds drawn should not exceed actual program costs incurred through the date of the drawdown receipt. A one-day buffer is allowed for the institution to incur program costs equal to the drawn down amount.

2. Finding

The institution's monthly Federal Cash Transaction Report (272) did not accurately reflect the true cumulative expenditure balances at various month ends during fiscal year 1995-1996. The institution used pre-closing reports to support the report's data, yet they did not indicate that these figures were not actual month end amounts. This method of report preparation was utilized to keep the reports submission on a timely basis. The incorrect 272's were sent to the Department of Education and the Department of Health and Human Services.

Recommendation

If the institution must submit pre-closing expenditure data on its monthly Federal Cash Transaction Reports, this fact should be noted on the first page of the report. Requesting a time extension from the

ALCORN STATE UNIVERSITY

Schedule of Findings and Recommendations
For the Year Ended June 30, 1996

respective federal agency would perhaps be a better course of action. Accurate and final expenditure data could then be reflected on these extended reports.

General Requirements

Student Financial Aid

Finding

Our examination of the institution's fiscal year 1995-1996 Fiscal Operations Report (FISAP), revealed unexplained reconciling differences between the institution's general ledger and the following FISAP sections:

- a) Part III, Section A, Line 1.1, Column C
- b) Part III, Section A, Line 17, Column D
- c) Part III, Section A, Line 19, Column C
- d) Part III, Section A, Line 22, Column D
- e) Part III, Section A, Line 23, Column D
- f) Part III, Section A, Line 25.2
- g) Part III, Section A, Line 28, Column C
- h) Part III, Section A, Line 34, Column C
- i) Part III, Section A, Line 36, Column C
- j) Part III, Section B, Line 7, Column B

Recommendation

The institution needs to continue striving toward the reconciling of the year-end general ledger to the loan servicer's reports. This would enable the institution to produce an accurate FISAP report.

Other Findings

1. Finding

During our examination of the various due from/due to other fund accounts, we noted that many of them are not clearing in a timely manner. These accounts are intended for borrowings of a temporary nature only.

Recommendation

The institution needs to take the appropriate steps to clear up these due from/due to other fund accounts in a more timely manner.

2. Finding

The institution's Key Deposit and Breakage Fee Deposit liability accounts had no supporting student rosters at year-end 6-30-96. These deposits are made by students at the beginning of their enrollment. Upon separation from the institution, the student must provide a receipt to obtain their deposit. If their receipt is lost, then the student would lose their deposit. Without a student roster of deposits held, there is no other way for the student to prove that they have a deposit on file with the institution. At June 30, 1996, these two liability accounts were materially overstated based upon current enrollment figures. This overstatement was undoubtedly the result of lost receipts by separated students from prior years.

ALCORN STATE UNIVERSITY

Schedule of Findings and Recommendations
For the Year Ended June 30, 1996

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Schedule of Findings and Recommendations
For the Year Ended June 30, 1996

Recommendation

The institution needs to develop a student roster of deposits received to provide support for the liability incurred. This would give added support to a student who had lost their receipt. In addition, deposits that cannot be identified should be removed from the liability account and recognized as income to the institution.

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ALCORN STATE UNIVERSITY
DATA SHEET
For the Year Ended June 30, 1996

Lead Auditor: Brent Ballard, CPA

Telephone Number: (601) 364-2720

Contact Person at Institution: Mr. Wiley F. Jones

Address of Contact:

Alcorn State University
Office of the Business Manager
1000 ASU Drive
P.O. Box 509
Lorman, Mississippi 39096

Telephone Number of Contact: (601) 877-6151

The field audit work was performed between March 5, 1997 and August 15, 1997 at the institution's facilities as follows:

<u>Location</u>	<u>Description of Facility</u>	<u>Dates Visited</u>
Alcorn State University	Main Campus	3/5/97 through 8/15/97

Institution's Accrediting Organization: Southern Association of Colleges and Schools

The institution utilizes a student financial aid (SFA) servicer.

Educational Data Systems, Inc.
P.O. Box 815459
Dallas, Texas 75381-5459

Records for the accounting and administration of the SFA programs are located at:

Alcorn State University
1000 ASU Drive
P.O. Box 509
Lorman, Mississippi 39096

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