



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

October 15, 2004

Financial Audit Management Report

Henry L. Johnson, Ed.D., State Superintendent
Mississippi Department of Education
P. O. Box 771
Jackson, Mississippi 39205

Dear Dr. Johnson:

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Department of Education for the year ended June 30, 2004. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. The Office of the State Auditor's staff members participating in this engagement included Rob Robertson, M. Diane Sanders, Jay Strait, and Scott Joyner, CISA.

The fieldwork for audit procedures and tests was completed on October 12, 2004. These 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 Department of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on these accounts and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Department of Education are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, 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. We are pleased to report the results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Education throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

January 26, 2005

Single Audit Management Report

Henry L. Johnson, Ed.D., State Superintendent
Mississippi Department of Education
P. O. Box 771
Jackson, Mississippi 39205

Dear Dr. Johnson:

Enclosed for your review are the single audit findings and other audit findings for the Mississippi Department of Education for the Fiscal Year 2004. In these findings, the Auditor's Office recommends the Mississippi Department of Education:

Single Audit Findings

1. Strengthen controls over the classification of expenditures for the Child and Adult Care Food Program;
2. Strengthen controls over input of revised budget allocations for the Special Education Programs;
3. Strengthen controls over earmarking requirements for the Special Education Programs;
4. Strengthen controls to ensure compliance with maintenance of effort requirements of the Title I Grants to Local Educational Agencies Program;
5. Strengthen controls to ensure compliance with the earmarking requirements of the Special Education Programs;
6. Strengthen controls over carryover requirements of the Title I Grants to Local Educational Agencies Program;
7. Strengthen controls over achievement reports for the Title I Grants to Local Educational Agencies Program;

Other Audit Findings

8. Strengthen controls over earmarking requirements for the Title I Grants to Local Educational Agencies Program; and
9. Strengthen controls over earmarking requirements for the State Grants for Innovative Programs.

Please review the recommendations and submit a plan to implement them by February 18, 2005. The enclosed findings contain more information about our recommendations.

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

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Mississippi Department of Education
January 18, 2005
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I hope you find our recommendations enable the Mississippi Department of Education to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Education throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

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 selected federal programs of the Mississippi Department of Education for the year ended June 30, 2004. This audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Office of the State Auditor's staff members participating in this engagement included Rob Robertson, Liza Hammett, M. Diane Sanders, Jay Strait, LaRondia Johnson, and Rebecca Wilson.

The fieldwork for audit procedures and tests was completed on January 20, 2005. These procedures and tests cannot and do not provide absolute assurance that all federal legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the department's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts or grants that would be material to a major federal program being audited may occur and not be detected within a timely manner by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

In addition, we noted other matters involving the internal control over compliance that require the attention of management that we have reported on the attached document "Other Audit Findings".

Compliance

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. We have audited each of the major federal programs for compliance with the types of compliance requirements described in OMB Circular A-133. Our audit fieldwork included examining, on a test basis, evidence about the department's compliance with those requirements and such other procedures as we considered necessary. The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133.

REPORTABLE CONDITIONS

CFDA/Finding Number

Finding and Recommendation

ALLOWABLE COSTS/COST PRINCIPLES

Reportable Condition

10.558

Child and Adult Care Food Program

Federal Award Number and Year: CN04-1099, 2004

04-02

Controls over the Classification of Program Expenditures Should Be Strengthened

Finding:

The Mississippi Department of Education - Office of Child Nutrition administers the Child and Adult Care Food Program (CACFP) which initiates and maintains non-profit food service programs for eligible children and adults in nonresidential day care settings. Federal assistance to institutions takes the form of cash reimbursement for meals served and cash in lieu of commodities. An institution's entitlement to cash reimbursement is computed by multiplying the number of meals served by category (free, reduced, paid) and type (breakfast, lunch, snack, supper) by prescribed per-unit reimbursement rates. The entitlement to cash in lieu of commodities is based on the number of lunches and suppers served. Each month the agency is required to submit a Report of the Child and Adult Care Program (FNS 44) that presents the number of meals served, by category and type, in institutions participating in the program. The program must also submit a quarterly Financial Status Report (SF 269) on the use of funds.

During testwork on 40 CACFP claims and statements of reimbursement, we encountered eight instances, or 20 percent, in which the reporting category used for reporting meals by category and type was incorrect. Although the total reimbursement to each subrecipient was correct, the reporting category for meal reimbursement (N214) was understated while the reporting category for cash in lieu of commodities reimbursement (N164) was overstated by the same amount. A problem with the Office of Child Nutrition on-line claims application system had already been detected by agency staff. However, the problem was unresolved at the time of the testwork. Failure to correctly classify and report program expenditures by category could impede the oversight responsibility of the federal grantor agency.

Recommendation:

We recommend the Mississippi Department of Education – Office of Child Nutrition implement necessary changes to the on-line claims application system to ensure reimbursements are properly classified as to reporting category.

ALLOWABLE COSTS/COST PRINCIPLES

Reportable Condition

84.027 Special Education – Grants to States
84.173 Special Education – Preschool Grants

Federal Award Number and Year: EH027A020108, 2002
EH027A030108, 2003

04-03 Controls over Input of Revised Budget Allocations Should Be Strengthened

Finding:

The Mississippi Department of Education – Office of Special Education is responsible for subgranting funds to local educational agencies (LEAs) from the Special Education – Grants to States and Special Education – Preschool Grants programs. Each LEA must submit an application for approval which includes a budget specifying how the funds will be used, statements of assurances and other required documentation. Initially, the agency will establish a budget amount for the LEA in the accounting system. After review is performed on the application, a revised budget amount may be approved. Testwork on 60 subgrant applications revealed three instances in which the LEA's budget was revised but the revised budget was not input to the Statewide Automated Accounting System (SAAS). Good internal controls require personnel to ensure the approved budget for each LEA is properly input to SAAS. Lack of adequate controls to ensure the final approved budget is properly input to SAAS could allow a LEA to incur questioned costs by drawing funds in excess of the approved budget.

Recommendation:

We recommend the Mississippi Department of Education - Office of Special Education strengthen controls over the Special Education – Grants to States and Special Education – Preschool Grants programs to ensure the final approved budget for each LEA is properly input to the Statewide Automated Accounting System.

MATCHING, LEVEL OF EFFORT, EARMARKING

Reportable Condition

84.027 Special Education – Grants to States
84.173 Special Education – Preschool Grants

Federal Award Number and Year: H027A030108, 2003
H173A030113, 2003

04-04 Controls over Earmarking Requirements Should Be Strengthened

Program regulations for the Special Education – Grants to States (Part B) and Special Education – Preschool Grants (Preschool) programs require the Mississippi Department of Education to allocate a portion of grant funding, commonly known as "minimum flow-through funds", to the various local educational agencies (LEAs) within the State.

The minimum flow-through funds are allocated based on a formula comprised of three components. The first component is a fixed base amount calculated on a count of the number of children with disabilities receiving special education and related services in December 1998 (for Part B) and December 1996 (for Preschool). The second component is an amount based on total elementary and secondary student enrollment in both public and private schools. The third component is an amount based on the number of students living in poverty.

Testwork performed on minimum flow-through allocations to LEAs for the 2003 Part B and Preschool grant awards revealed the following:

- The Part B base allocations were correctly calculated by agency personnel but we noted the calculated allocations were not properly input to the Statewide Automated Accounting System (SAAS) project budget tables. We also noted the project agreements forwarded to the LEAs were incorrect. Our testwork revealed 17 subrecipients were under funded by a total \$18,990. Due to time constraints, it was not practical for the auditor to document and compare all 163 Part B LEA allocations on the computer spreadsheet to the project agreements and SAAS tables.
- The Preschool base allocations did not include the correct student enrollment figures. Consequently, base allocations to the LEAs were incorrectly calculated. Five of the preschools were over funded by a total of \$744.73 and 149 preschools were under funded by the same amount.

As a result of the errors noted, it appears the agency may fail to achieve the minimum flow-through funds earmarking requirement. Reasonable management practices dictate that procedures be implemented to ensure the LEA allocations are accurately calculated, project agreements are correct and approved allocations are correctly input to SAAS budget tables.

Recommendation:

We recommend the Mississippi Department of Education – Office of Special Education strengthen controls to ensure the entry of data into the agency's computer spreadsheet is reviewed for accuracy and completeness. Procedures should be implemented to ensure the calculated base allocations are incorporated into the actual amounts awarded to the subrecipients. All independent reviews should be documented.

MATCHING, LEVEL OF EFFORT, EARMARKING

Reportable Condition Immaterial Noncompliance

84.010

Title I Grants to Local Educational Agencies

Federal Award Number and Year: S010A030024, 2003

Questioned Costs: \$44,426

04-05

Controls over Maintenance of Effort Requirements Should Be Strengthened

Finding:

The Elementary and Secondary Education Act (ESEA), Section 9521 (20 USC 7901), requires the state educational agency to reduce the amount of allocation of Title I Grants to local educational agencies (LEA) program funds for a LEA in any fiscal year in which the LEA fails to maintain level of effort. The allocation will be reduced in the exact proportion by which the LEA fails to maintain level of effort by falling below 90 percent of both the combined fiscal effort per-pupil and aggregate expenditures.

The Mississippi Department of Education – Office of Innovative Support utilizes a spreadsheet which calculates the amount expended by each school district for per-pupil and aggregate spending. The spreadsheet calculates the percentage change for each category. Our review of the spreadsheet documenting each of the LEA's maintenance of effort revealed the percentage change for 151 of the 152 LEAs was incorrectly calculated. The original spreadsheet showed that all school districts met the maintenance of effort requirement when comparing the previous two fiscal years. After we brought the errors to the attention of agency personnel, a revised spreadsheet was calculated. Using the corrected spreadsheet, we noted that one school district failed to meet the maintenance of effort requirement. The fiscal year 2004 allocation for the school district should have been decreased by \$44,426.

Good internal controls dictate procedures be in place to ensure a LEA's maintenance of effort is correctly calculated and the allocation of funds is adjusted in a timely manner if level of effort is not maintained. Failure to ensure maintenance of effort by a LEA during the application approval process increases the risk that federal noncompliance could exist and go undetected.

Recommendation:

We recommend the Mississippi Department of Education – Office of Innovative Support strengthen its internal controls to ensure each local educational agency's maintenance of effort is correctly calculated and the allocation of funds is properly reduced if the level of effort is not maintained. The independent review of the calculations should be documented prior to the application approval process.

MATCHING, LEVEL OF EFFORT, EARMARKING

Reportable Condition Immaterial Noncompliance

84.027 Special Education – Grants to States
84.173 Special Education – Preschool Grants

Federal Award Number and Year: H027A010108, 2001
H173A030113, 2003

04-06 Controls over Compliance with Earmarking Requirements Should Be Strengthened

Finding:

The Mississippi Department of Education – Office of Special Education administers the Special Education – Grants to States and Special Education – Preschool Grants programs. The grant award documents for these programs indicate the minimum amount of funds the State must distribute to its local educational agencies (LEAs) for formula and capacity building subgrants as well as the maximum amount that can be expended for administration and other state-level activities. During the audit of fiscal year 2004, we noted the agency had not developed adequate procedures to ensure the required budget allotment of funds was correctly determined and input to the accounting system. During testwork on the earmarking requirement for the federal fiscal year 2001 Special Education – Grants to States program, we noted the amount budgeted and expended in the Statewide Automated Accounting System (SAAS) for other state-level activities by the agency exceeded the maximum allowed by \$546,771 and the amounts budgeted and expended for capacity building and formula subgrants failed to reach the minimum required by \$521,877 and \$25,177, respectively. During the testwork on the earmarking requirement for the federal fiscal year 2003 Special Education – Preschool Grants program, we noted the amount budgeted in SAAS for administration exceeded the maximum allowed by \$39,633. Because the federal fiscal year 2003 was still ongoing at the time of audit testwork, actual expenditures had not exceeded the maximum amount allowed. Failure to properly calculate budgetary limits in SAAS could result in noncompliance by the Mississippi Department of Education with the maximum/minimum earmarking requirements mandated by the United State Department of Education.

After these problems were brought to the attention of management, agency personnel were able to make corrections to the 2001 grant by adjusting state-level activities to non-federal source funds to decrease the federal expenditures to comply with the maximum amount allowed. Likewise, state funds were used to satisfy the minimum amounts required for capacity building and formula subgrants. For the 2003 grant, the agency adjusted budgeted amounts for administrative expenditures to comply with federal regulations. Because adjustments were made at the time of audit testwork, no costs were questioned.

Recommendation:

We recommend the Mississippi Department of Education – Office of Special Education strengthen controls over the earmarking of Special Education - Grants to States and Special Education - Preschool Grants funds. Calculations for budgetary allotments should be reviewed and approved by an independent person.

PERIOD OF AVAILABILITY OF FEDERAL FUNDS

Reportable Condition

84.010 Title I Grants to Local Educational Agencies

Federal Award Number and Year: S010A050024, 2002

04-07 Controls over Carryover Requirements Should Be Strengthened

Finding:

The Elementary and Secondary Education Act, Section 1127 (20 USC 6339), requires the state educational agency (SEA) and the local educational agency (LEA) to obligate funds during the 27 month period, extending from July 1 through September 30, of the second fiscal year for the Title I Grants to Local Educational Agencies program. This maximum period includes a 15-month period of initial availability for obligation plus a 12-month period for the carryover of unobligated funds. A LEA receiving \$50,000 or more in Title I, Part A funds cannot carry over more than 15 percent of its allocation for the project year. A SEA may grant a waiver to a LEA no more than once every three years to allow a LEA to carry over funds in excess of the 15 percent limitation.

The Mississippi Department of Education – Office of Innovative Support (MDE-OIS) developed a spreadsheet to track each LEA's expenditures, available allotment balance, and the amount in excess of the allowed 15 percent carryover. At the close of September, the schools which appear to have 15 percent or more of their allotment balance available are required to submit a Verification of Carryover Form by the first week of November to document/certify expenditures as well as obligations/commitments. If the available balance is in excess of the allowed carryover percentage, the LEA must also submit a waiver request signed by the superintendent, for MDE-OIS consideration and approval. Testwork performed for fiscal year 2004 revealed that the agency had not maintained a documented list of waivers granted to LEAs in prior years. Therefore, we could not determine if the agency had not approved a waiver to a LEA during the previous two years.

Good internal controls dictate that adequate procedures be in place to ensure compliance with program requirements. Without a listing of LEAs previously granted waivers, the Mississippi Department of Education – Office of Innovative Support could allow a LEA to exceed the spending authority approved by program regulations by allowing a LEA to carry over funds in excess of 15 percent of its allocation more than one time in three years.

Recommendation:

We recommend the Mississippi Department of Education - Office of Innovative Support strengthen procedures to ensure compliance with the 15 percent carryover limitation by maintaining a listing of LEAs previously granted waivers. Procedures should ensure waivers are not granted more than once in a three-year period.

SPECIAL TESTS AND PROVISIONS

Reportable Condition

84.010 Title I Grants to Local Educational Agencies

Federal Award Number and Year: S010A050024, 2004

04-08 Controls over Reporting Should Be Strengthened

Finding:

Section 1116(c) of the Elementary and Secondary Educational Act (20 USC 6316(c)) requires a state educational agency (SEA) to annually review the progress of each local educational agency (LEA) receiving funds under Title I Grants to Local Educational Agencies program to determine whether schools are making adequate yearly progress. The SEA must report annually to the Secretary of the United States Department of Education and make certain information widely available within the State, including the number and names of each school identified for improvement under Section 1116(b), the reason why each school was so identified, and the measures taken to address the achievement problems of each school. The SEA must prepare and disseminate an annual state report card that contains information on the performance of LEAs regarding adequate yearly progress. In addition, the SEA must ensure that each LEA collects the data necessary to prepare its annual report card (Sections 1111(h)(1) and (4)).

The Mississippi Department of Education - Office of Innovative Support is responsible for collecting, compiling and determining the accuracy of the information obtained about the number and names of schools and LEAs in need of improvement. Testwork performed on the Consolidated State Performance Report (Parts I and II) for school year 2002-2003 revealed the absence of supporting documentation for pertinent data in Part II. We also noted the absence of a documented supervisory review and approval of the report prior to submission to the federal grantor agency.

Good internal controls require source documentation be maintained for audit purposes and federal reports be given a documented supervisory review prior to submission. Without supporting documentation, we were unable to determine if the data in Part II was accurate and complete. Failure to provide a properly documented supervisory review could allow errors to occur without being detected promptly.

Recommendation:

We recommend the Mississippi Department of Education – Office of Innovative Support strengthen controls over the preparation of the Consolidated State Performance Report by ensuring supporting documentation is maintained for all data included in the report. We further recommend a documented supervisory review be performed prior to submittal of the report to the federal grantor agency.

OTHER AUDIT FINDINGS

In planning and performing our audit of the federal awards received by the Mississippi Department of Education for the year ended June 30, 2004, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs. Matters which require the attention of management were noted. These matters which do not have a material effect on the agency's ability to administer major federal programs in accordance with applicable laws, regulations, or provisions of contracts or grant agreements involve other internal control weaknesses.

IMMATERIAL WEAKNESS IN INTERNAL CONTROLS

<u>CFDA/Finding Number</u>	<u>Finding and Recommendation</u>
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MATCHING, LEVEL OF EFFORT, EARMARKING

Immaterial Weakness

84.101

Title I Grants to Local Educational Agencies

Federal Award Number and Year: S010A030024, 2003

Oth-2

Controls over Earmarking Requirements Should Be Strengthened

Finding:

During our review of the Title I Grants to Local Educational Agencies program administered by Mississippi Department of Education – Office of Innovative Support, we noted the controls were not operating effectively to ensure the earmarking requirements are being met. The Elementary and Secondary Education Act (ESEA), Section 1003(a)-(e) (20 USC 6303(a)-(e)), requires the state educational agency to reserve 2 percent of the amount the State receives from the grant award for school improvement. Of the amount reserved, not less than 95 percent is to be allocated directly to local educational agencies (LEAs) for schools identified for school improvement and not more than 5 percent may be used by the State to provide technical assistance and support of the schools. The amount budgeted in the Statewide Automated Accounting System (SAAS) for direct allocation to LEAs failed to achieve the minimum and the amount budgeted for the State exceeded the maximum required by \$157,215.84. Failure to properly calculate budgetary limits in SAAS could result in noncompliance by the Mississippi Department of Education with the earmarking maximum/minimum requirements. After the error was brought to the attention of management, agency personnel corrected the program budget in SAAS before expenditures exceeded the required limits.

Recommendation:

We recommend the Mississippi Department of Education – Office of Innovative Support strengthen controls over the earmarking of Title I Grants to Local Educational Agencies funds. Calculations for budgetary allotments should be reviewed and approved by an independent person to ensure amounts comply with restrictions in federal regulations.

MATCHING, LEVEL OF EFFORT, EARMARKING

Immaterial Weakness

84.298 State Grants for Innovative Programs

Federal Award Number and Year: S298A030024, 2003

Oth-3 Controls over Earmarking Requirements Should Be Strengthened

Finding:

Title V, Part A, Section 5112(a)(b)(c) of the Elementary and Secondary Education Act (20 USC 7211a(a)(b)(c)) indicates the Mississippi Department of Education – Office of Innovative Support must allocate a minimum of 85 percent to local educational agencies and a maximum of 15 percent for State use, of which no more than 15 percent may be used for State administration of the program. During testwork on the earmarking requirement of the State Grants for Innovative Programs we noted the amount budgeted in the Statewide Automated Accounting System (SAAS) for State administration exceeded the maximum amount allowed by \$58,760. Failure to properly calculate budgetary limitations in SAAS could result in noncompliance by the agency with the earmarking maximum/minimum requirements. After we brought the error to the attention of management, agency personnel corrected the program budget in SAAS before expenditures exceeded the required limits.

Recommendation:

We recommend the Mississippi Department of Education – Office of Innovative Support strengthen controls over the earmarking for the State Grants for Innovative Programs. Calculation of budgetary allotments should be reviewed and approved by an independent person to ensure the amounts comply with restrictions in federal regulations.