



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

February 9, 2009

Financial Audit Management Report

Hank M. Bounds, Ph.D., State Superintendent
Mississippi Department of Education
P. O. Box 771
Jackson, Mississippi 39205

Dear Mr. Bounds:

Enclosed for your review is the financial audit finding for the Mississippi Department of Education for the Fiscal Year 2008. In this finding, the Auditor's Office recommends the Mississippi Department of Education strengthen controls over SAAS approval levels.

Please review the recommendation and submit a plan to implement it by February 19, 2009. The enclosed finding contains more information about our recommendation.

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

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

I hope you find our recommendation enables 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,

A handwritten signature in black ink, reading "Stacey E. Pickering", is written over a horizontal line.

Stacey E. Pickering
State Auditor

Enclosures

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, 2008. These financial statements are consolidated into the State of Mississippi's Comprehensive Annual Financial Report. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Office of the State Auditor's staff members participating in this engagement included Rob Robertson, Kim McCrory, Chris Groebe, Manny Patel, Josh Shoemaker and Lisa Worthy.

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

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Department of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted a certain immaterial weakness involving the internal control over financial reporting that requires the attention of management. This matter is noted under the heading **OTHER CONTROL DEFICIENCY**.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

OTHER CONTROL DEFICIENCY

**Finding
Number**

Finding and Recommendation

2008-01

Controls over SAAS Approval Levels Should Be Strengthened

Finding:

During our review of the approval levels established in the Statewide Automated Accounting System (SAAS) at the Mississippi Department of Education, the following was noted:

- One former employee still had disbursement input and approval capabilities; and
- One former employee still had journal voucher input and approval capabilities.

Good internal controls should ensure an individual's access to on-line systems is deleted immediately upon termination. Failure to maintain adequate internal controls for an on-line system increases the potential for errors or fraud to occur without being promptly detected.

Recommendation:

We recommend the Mississippi Department of Education strengthen controls to ensure an individual's access to the Statewide Automated Accounting System is deleted immediately upon termination.



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

March 9, 2009

Single Audit Management Report

Hank M. Bounds, Ph.D., State Superintendent
Mississippi Department of Education
P. O. Box 771
Jackson, Mississippi 39205

Dear Dr. Bounds:

Enclosed for your review are the single audit findings and other audit finding for the Mississippi Department of Education for the Fiscal Year 2008. In these findings, the Auditor's Office recommends the Mississippi Department of Education:

Single Audit Findings

1. Strengthen controls over maintenance of effort requirements;
2. Strengthen controls over the earmarking requirement; and

Other Audit Findings

3. Strengthen controls over special tests and provisions.

Please review the recommendations and submit a plan to implement them by March 18, 2009. The enclosed findings contain more information about our recommendations.

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

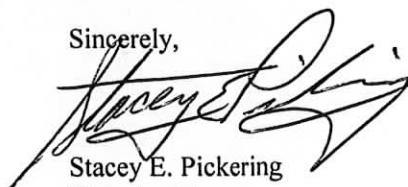
This report is intended solely for the information and use of management, individuals charged with governance, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public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

Mississippi Department of Education
March 9, 2009
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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,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering", with a stylized flourish at the end.

Stacey E. Pickering
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 the major federal programs of the Mississippi Department of Education for the year ended June 30, 2008. 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, Kimberly Majure, CPA, Kim McCrory, Chris Groebe, Josh Shoemaker, and Lisa Worthy.

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

Internal Control over Compliance

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 the Mississippi Department of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program.

Our consideration of internal control over compliance would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance identified in this letter as items 08-01 and 08-02 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. However, we do not consider any of the significant deficiencies identified above to be a material weakness.

In addition, we noted a control deficiency that requires 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 no instances of noncompliance that are required to be reported by OMB Circular A-133.

CFDA/Finding Number

Finding and Recommendation

EDUCATION

MATCHING, LEVEL OF EFFORT, EARMARKING

Significant Deficiency

84.010

Title I Grants to Local Educational Agencies

Federal Award Number and Year S010A040027A, 2007

08-01

Controls over Maintenance of Effort Requirements Should Be Strengthened

Finding:

Local educational agencies (LEAs) participating in the Title I Grants to Local Educational Agencies program are required to comply with a 90 percent maintenance of effort requirement related to per pupil expenditures provided by non-federal funds. The Mississippi Department of Education (SDE) utilizes a spreadsheet to capture appropriate information for use in ensuring compliance by the LEAs with the maintenance of effort compliance requirement. Policies and procedures put in place by the SDE state that the spreadsheet should be prepared by the School Finance Office and the Office of Federal Financial Management should then review the spreadsheet and determine whether LEAs have met the maintenance of effort requirements.

While performing testwork related to the maintenance of effort requirements for the Title I Grants to Local Education Agencies program, we noted the agency had incorrectly calculated the percentage of change relating to per pupil expenditures by school district between the 2005 school year and the 2006 school year. It appears a cell formula was incorrectly set up to calculate the change between years. We also noted the spreadsheet used for calculating the change in per pupil expenditures was not reviewed by supervisory personnel.

Failure to adequately review the spreadsheet and accurately determine the change in per pupil expenditures between the two school years could result in failure on the part of the agency to correctly identify school districts which fail to meet the maintenance of effort requirement. However, it should be noted that after the error was noted by auditors, the spreadsheet was recalculated. The only school districts which failed to meet the maintenance of effort requirement had properly obtained a waiver from the United States Department of Education therefore it appears the LEAs are in compliance with the maintenance of effort requirement.

Recommendation:

We recommend the Mississippi Department of Education strengthen controls over the review of maintenance of effort requirement for the Title 1 Grants to Local Educational Agencies program and ensure formulas utilized on the calculated spreadsheet are correct. We further recommend the spreadsheet receive a documented supervisory review.

MATCHING, LEVEL OF EFFORT, EARMARKING

Significant Deficiency

84.010

Title I Grants to Local Educational Agencies

Federal Award Number and Year: S010A070024A, 2007

08-02

Controls over the Earmarking Requirement Should Be Strengthened

Finding:

Under provisions of the Title 1 Grants to Local Educational Agencies, the local educational agencies (LEAs) identified for school improvement activities must provide choice-related transportation under section 1116(b)(1)(E) and/or supplemental educational services under section 1116(e) of the Elementary and Secondary Education Act [20 USC 6316(b) and (e)]. The LEA must spend an amount equal to 20 percent of its allocation under subpart 2 of Part A to provide such transportation and supplemental services, unless a lesser amount is needed to satisfy all requests. Of this amount, the LEA must spend a minimum of an amount equal to five percent of its subpart 2 allocation on choice-related transportation and a minimum of an amount equal to five percent of its subpart 2 allocation for supplemental educational services. It may spend the remaining ten percent for either or both activities. The state educational agency (SEA) is responsible for ensuring the LEAs remain in compliance with earmarking requirements. As a means of ensuring that LEAs comply with the earmarking requirement, the Mississippi Department of Education – Office of Innovative Support requires each LEA identified for school improvement activities to complete a Consolidated Federal Program Application each year documenting the program allocations and budgets.

During our testwork of the earmarking requirement, we noted three instances in which the amount of funds allocated by an LEA identified for school improvement was below the 20 percent required allocation for Choice-Related Transportation and Supplemental Education Services. However, there was no documentation to support an allocation of less than 20 percent.

Good internal controls require the agency to have adequate control procedures in place to ensure compliance with federal regulations. Failure to properly monitor each LEA for compliance with the earmarking requirement could result in noncompliance with federal regulations and jeopardize continued funding under the Title I Grants to Local Educational Agencies program.

Recommendation:

We recommend the Mississippi Department of Education – Office of Innovative Support (MDE-OIS) strengthen control procedures to ensure the local educational agencies identified for school improvement activities are in compliance with earmarking requirements. For instances in which a LEA fails to allocate at least 20 percent of funds for Choice-Related Transportation and Supplemental Education Services, documentation should be obtained that a lesser amount was sufficient to satisfy all requests for transportation services.

Other Audit Finding

In planning and performing our audit of the federal awards received by the Mississippi Department of Education for the year ended June 30, 2008, 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 control deficiencies. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis.

CFDA/Finding Number

Finding and Recommendation

SPECIAL TESTS AND PROVISIONS

Other Control Deficiency

84.010

Title-I Grants to Local Educational Agencies

Federal Award Number and Year: S010A070024A, 2007

Oth-1

Controls over Special Tests and Provisions Should Be Strengthened

Finding:

Section 111(c) of the Elementary and Secondary Education Act (20 USC 6316(c)) requires a state education agency (SEA) to annually review the progress of each local education 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 U.S. Department of Education and make certain information widely available within the State, including the number and name 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 also 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 in compliance with 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 2006-2007 revealed the agency could not provide supporting documentation for some of the data entered into the Consolidated State Performance Report. Specifically, the data for “Students who are homeless” could not be vouched to source documents.

Good internal controls require source documentation be maintained for audit purposes. The absence of source documentation hinders the performance of a proper and efficient audit and prevented the auditors from verifying that the Consolidated State Performance Report for school year 2006-2007 was properly and accurately prepared.

Recommendation:

We recommend the Mississippi Department of Education strengthen controls over the preparation of the Consolidated State Performance Report by ensuring supporting documentation is maintained for all data included in the report.