



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

January 10, 2012

Financial Audit Management Report

Leland Speed, Executive Director
Mississippi Development Authority
Post Office Box 849
Jackson, Mississippi 39205

Dear Mr. Speed:

Enclosed for your review are the financial audit findings for the Mississippi Development Authority for the Fiscal Year 2011. In these findings, the Auditor's Office recommends the Mississippi Development Authority:

1. Strengthen controls to evaluate the validity of deferred revenue amounts on the Schedule of Expenditures of Federal Awards; and
2. Strengthen controls to verify that liabilities to subgrantees are properly classified in GAAP reporting packages.

Please review the recommendations and submit a plan to implement them by February 8, 2012. 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. The Office of the State Auditor has also issued an Information Systems Management Report on the Mississippi Development Authority, dated September 7, 2011. That report should be read in conjunction with this report.

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

Sincerely,

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 Development Authority for the year ended June 30, 2011. 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 Jane Dussouy, CPA, Johnnie Davenport, Tommy Felter, Wayne Jerome, and Heather Ward.

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

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Development Authority's internal control over financial reporting 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 certain control deficiencies involving the internal control over financial reporting that require the attention of management. These matters are noted under the heading **OTHER CONTROL DEFICIENCIES**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Development Authority are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

OTHER CONTROL DEFICIENCIES

CFDA/Finding Number

Finding and Recommendation

2011-02

Controls Should be Strengthened to Evaluate the Validity of Deferred Revenue Amounts on the Schedule of Expenditures of Federal Awards

Finding:

Sections 27.30.60 and 27.30.70 of the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual provide instructions for the agency's completion of the Schedule of Expenditures of Federal Awards and Schedule of Federal Sub-Grant Activity form. During testwork on the fiscal year 2011 GAAP reporting package for Fund 341X, including testwork over the fund's Schedule of Expenditures of Federal Awards and Federal Sub-Grant Activity form, we noted an inappropriate presentation of \$1,473,009 in deferred revenue on the fund's June 30, 2011 financial statements. Consequently, "Deferred Revenue" and "Due From Federal Government" were both overstated by \$1,473,009 at June 30, 2011 for Fund 341X. Since all federal awards for grants tracked in Fund 341X are drawn on a cash reimbursement basis, there should not be any funds owed to the federal government (ie – deferred revenue). Posting errors made by agency personnel would be the most likely cause of deferred revenue being calculated on the grant schedules. An audit adjustment was proposed by the auditors and approved by agency management to correctly state the financial statements.

Recommendation:

We recommend the Mississippi Development Authority strengthen controls to ensure the supporting schedules and financial statements in the GAAP reporting package are properly presented. Supervisory review should be documented on each report. In addition, research into what has created a deferred revenue balance for fund 341X should be performed to determine appropriate correcting entries.

2011-03

Controls Should be Strengthened to Verify that Liabilities to Subgrantees Are Properly Classified in GAAP Reporting Packages

Finding:

Sections 27.30.60 and 27.30.70 of the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual provide instructions for the agency's completion of the Schedule of Expenditures of Federal Awards and Schedule of Federal Sub-Grant Activity form. During testwork on the fiscal year 2011 GAAP reporting packages for Funds 341W and 341X, including testwork over the funds' Schedules of Expenditures of Federal Awards and Federal Sub-Grant Activity forms, we noted that amounts recorded as liabilities to subgrantees at June 30, 2011 were incorrectly classified. Errors noted resulted in amounts "Due to Subrecipients" being overstated (net) by \$2,993,088 and amounts "Due to Local Governments" being understated (net) by \$2,993,088 for Funds 341W and 341X. Adjustments were proposed by the auditors and approved by agency management to correctly state the financial statements.

Recommendation:

We recommend the Mississippi Development Authority strengthen controls to ensure the supporting schedules and financial statements in GAAP reporting packages are properly presented. Supervisory review should be documented on each report.

End of Report



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

March 29, 2012

Single Audit Management Report

James L. Barksdale, Executive Director
Mississippi Development Authority
P. O. Box 849
Jackson, Mississippi 39205

Dear Mr. Barksdale:

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 Community Development Block Grants/State's Program (CDBG) (CFDA # 14.228), a major federal program administered by the Mississippi Development Authority for the year ended June 30, 2011. The scope of our audit did not include the Disaster Recovery Funds within the CDBG program. Those funds were audited by other auditors who provided the results of their audit in a separate communication. Our 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 Jane Dussouy, CPA, Johnnie Davenport, Kim May, CPA, Tommy Felter, Heather Ward, and Adam Haywood.

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 Development Authority 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 Development Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility

that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Compliance

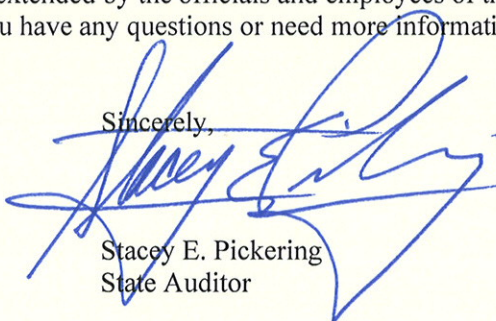
We have audited the compliance of the Mississippi Development Authority's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Community Development Block Grants/State's Program (CDBG). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Mississippi Development Authority's management. The scope of our audit did not include compliance of the Disaster Recovery Funds within the CDBG program. Those funds were audited for compliance by other auditors who provided the results of their audit in a separate communication.

Our audit included examining, on a test basis, evidence about the Mississippi Development Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. Based on audit procedures and test performed, no instances of noncompliance that are required to be reported by OMB Circular A-133 were noted.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Stacey E. Pickering", is written over the typed name and title.

Stacey E. Pickering
State Auditor