



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

February 5, 2014

Financial Audit Management Report

Brent Christensen, Executive Director
Mississippi Development Authority
P.O. Box 849
Jackson, Mississippi 39205

Dear Mr. Christensen:

Enclosed for your review are the financial audit findings for the Mississippi Development Authority for the Fiscal Year 2013. In these findings, the Auditor's Office recommends the Mississippi Development Authority:

1. Strengthen controls over the preparation of GAAP reporting packages;
2. Strengthen controls over cash receipts;
3. Strengthen controls over reconciliations between accounting systems; and
4. Review employee approval levels in the Statewide Automated Accounting System.

Please review the recommendations and submit a plan to implement them by February 27, 2014. The enclosed findings contain more information about our recommendations.

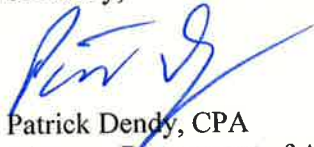
During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mississippi Development Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi Development Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Mississippi Development Authority
February 5, 2014
Page 2

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,



Patrick Dendy, CPA
Director, Department of Audit
Enclosures

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Development Authority for the year ended June 30, 2013. 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 Karlanne Coates, CPA, Amy Buller, CPA, Kristi Webb, Thomas Wirt, CPA, Virginia Anderson, and Katherine Landrum, CPA.

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

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Development Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Development Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that require the attention of management. These matters are noted under the heading **OTHER CONTROL DEFICIENCIES** as items 13-08, 13-09, 13-10, and 13-11.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Development Authority are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

OTHER CONTROL DEFICIENCIES

<u>Finding Number</u>	<u>Finding and Recommendation</u>
-----------------------	-----------------------------------

13-08

	<u>Controls Should Be Strengthened over Preparation of GAAP Reporting Packages</u>
--	--

Finding:

Sections 27.20.20, 27.30.60 and 27.30.70 of the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual provide instructions for agency's completion of GAAP adjustments, the Schedule of Expenditures of Federal Awards, and the Schedule of Federal Sub-Grant Activity. During our review of the GAAP reporting packages for Fund 341X, including a search for unrecorded payables, and testwork over the fund's Schedules of Expenditures of Federal Awards and Federal Sub-Grant Activity, we noted the following problems.

- Federal awards for grants tracked in Fund 341X are drawn on a cash reimbursement basis and there should not be any funds owed to the federal government (i.e. deferred revenue); however, there was \$382,507 in deferred federal revenue on the fund's June 30, 2013 grant schedule. This appears to be in error. "Deferred Federal Revenue" and "Due From Federal Government" were both overstated by \$382,507 on the fund's financial statements.
- One transaction totaling \$47,675 was included in year-end accruals on the Fund 341X GAAP reporting package, even though the service period was subsequent to year-end.
- One transaction totaling \$47,007 was not included in year-end accruals on the fund 341X GAAP reporting package, even though the service period was prior to year-end.
- The cumulative expenditures for eight grants exceeded the grant award amount (net) by \$967,407 on the Schedule of Expenditures of Federal Awards for Fund 341X.
- "Beginning Due From (To) Sub-Grantee and "Current Fiscal Year Expenditures" on the Schedule of Federal Sub-Grant Activity was not reported correctly for one subrecipient; however, the "Ending Due From (To) Sub-Grantee" was reported correctly. The agency reported the "Beginning Due From (To) Sub-Grantee" as zero, but the prior year schedule indicated an "Ending Due From (To) Sub-Grantee" of \$27,567. The agency instead reported this amount in the "Current Fiscal Year Expenditures" column. This error resulted in an "Ending Due From (To) Sub-Grantee" of zero, which is the correct ending balance.

Good internal controls require supervisory review of grant schedules and subgrant schedules in the GAAP reporting packages to ensure completeness and accuracy. Failure to properly prepare grant schedules and subgrant schedules could result in misstatement of agency financial statements.

Recommendation:

We recommend Mississippi Development Authority strengthen controls to ensure grant schedules, subgrant schedules, and financial statements in GAAP reporting packages are complete, properly presented, and the supporting documentation agrees to the grant schedule, subgrant schedule, and financial statements. We further recommend a supervisory review be performed and documented as evidenced by the signature of the reviewer.

13-09

Controls Should Be Strengthened over Cash Receipts

Finding:

During our review of 62 federal revenue transactions in Fund 341X at the Mississippi Development Authority, we noted seven instances in which the Cash Receipt (CR) document was not initialed indicating it was compared to the bank receipt for accuracy.

Agency procedure is for the federal revenue received per the bank receipt to be compared to the CR document to ensure the bank receipt is for the amount requested. Failure to ensure all amounts requested are received could result in funds not being received, being received for a different amount than requested, or not being received timely.

Recommendation:

We recommend the Mississippi Development Authority strengthen controls over federal revenue receipts to ensure all Cash Receipts are compared to the bank receipt to ensure accuracy of the receipt, and that this review be documented.

13-10

Controls Should Be Strengthened over Reconciliations Between Accounting Systems

Finding:

The Mississippi Development Authority (MDA) maintains and tracks grant payments in its Grants Management System (GMS). The Statewide Automated Accounting System (SAAS) is the general ledger used by agencies of the State of Mississippi. Payments made to subrecipients are

entered into GMS, and GMS is then uploaded into SAAS. Monthly, MDA reconciles the payments reported in GMS by fund number to the subsidies, loans, and grants payments reported in SAAS by fund number. Based upon testwork performed on the SAAS/GMS reconciliations for Funds 341X and 341Z, auditor noted three reconciliations did not receive supervisory review.

Good internal controls require supervisory review of reconciliations to ensure accuracy and to ensure adequate follow-up is performed. Lack of supervisory review could result in differences not being identified and resolved promptly.

Recommendation:

We recommend the Mississippi Development Authority strengthen controls over the Grants Management System and the Statewide Automated Accounting System reconciliation process to ensure all reconciliations receive a supervisory review in a timely manner as evidenced by the signature of the reviewer.

13-11

A Review Should Be Performed of Employee Approval Levels in the Statewide Automated Accounting System (SAAS)

Finding:

We performed testwork on employee entry and approval levels established in the Statewide Automated Accounting System (SAAS) at the Mississippi Development Authority for all four quarters of Fiscal Year 2013. We noted that in any quarter there were between 15 and 16 employees with entry capability and all agency approval levels required to process SAAS disbursement transactions from initiation to final agency approval. We also noted in any quarter there were between 16 and 17 employees with entry capability and all agency approval levels required to process SAAS revenue transactions. Further, it was noted in any quarter there were between seven and eight employees with entry capability and all agency approval levels required to process SAAS J2GR journal vouchers.

Good internal controls require segregation of duties to ensure an employee does not have the authority to initiate, authorize, and record a transaction in the accounting system. Failure to segregate duties could allow unauthorized or erroneous transactions to be recorded in SAAS without being promptly detected.

Recommendation:

We recommend the Mississippi Development Authority review employee approval levels in the Statewide Automated Accounting System to ensure

no individual has both input access and all agency levels of approval over transactions.

End of Report



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

March 6, 2014

Single Audit Management Report

Brent Christensen, Executive Director
Mississippi Development Authority
P.O. Box 849
Jackson, Mississippi 39205

Dear Mr. Christensen:

Enclosed for your review are the other audit findings for the Mississippi Development Authority for Fiscal Year 2013. In these findings, the Auditor's Office recommends the Mississippi Development Authority:

1. Strengthen controls over Reporting requirements; and
2. Strengthen controls over Subrecipient Monitoring requirements.

Please review the recommendations and submit a plan to implement them by March 28, 2014. The enclosed findings contain more information about our recommendations.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Patrick Dendy", is written over a horizontal line.

Patrick Dendy, CPA
Director, Department of Audit

Enclosures

SINGLE AUDIT FINDINGS

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of the State's major federal programs administered by the Mississippi Development Authority for the year ended June 30, 2013. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Amy Buller, CPA, Kristi Webb, Virginia Anderson, Katherine Landrum, CPA, and Thomas Wirt, CPA.

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

Report on Compliance for Each Major Federal Program

We have audited the Mississippi Development Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the federal programs selected for audit that are administered by the Mississippi Development Authority for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi Development Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. However, our audit does not provide a legal determination of the Mississippi Development Authority's compliance.

Results of Compliance Audit Procedures

The results of our auditing procedures disclosed no instances of noncompliance that are required to be reported by OMB Circular A-133. However, we noted immaterial instances of noncompliance that we have reported on the attached document, "Other Audit Findings," as items Oth-04 and Oth-05

Internal Control over Compliance

Management of the Mississippi Development Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mississippi Development Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Development Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

In addition, we noted other deficiencies in internal control over compliance that require the attention of management that we have reported on the attached document "Other Audit Findings" as items Oth-04 and Oth-05.

OTHER AUDIT FINDINGS

In planning and performing our audit of the federal awards received by the Mississippi Development Authority for the year ended June 30, 2013, we considered internal control over compliance with the 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 control deficiencies and immaterial instances of noncompliance.

CFDA/Finding Number

Finding and Recommendation

REPORTING

Control Deficiency Immaterial Noncompliance

14.228

Community Development Block Grant/State's Program

Federal Award Number and Year: B-11-DC-28-0001; 2011
B-12-DN-28-0001; 2012

Oth-04

Controls Should Be Strengthened over Reporting Requirements

Finding:

The *Code of Federal Regulations* (24 CFR section 91.520) require jurisdictions that have an approved consolidated plan to submit a performance report, in a form prescribed by U.S. Department of Housing and Urban Development (HUD), on the progress made in carrying out its action plan for each fiscal year's allocation. The Consolidated Annual Performance and Evaluation Report (CAPER) is HUD's prescribed method for the Mississippi Development Authority (MDA) to report annually on the performance of its programs with specific descriptions of the use of funds from each appropriation, including all active Community Development Block Grant (CDBG) program grants. MDA reports actual amounts expended for each active program grant. During testwork performed on the CAPER, we examined three (2010, 2011, and 2012) of the eight active program years (2005-2012) reported for the CDBG program. We noted the following problems.

- For CDBG Program Year 2011, "Amount Drawn down for State Administration", Part I under (1) "Financial Status" – line item E, was understated by \$13,359.
- For CDBG Program Year 2012, "Program Income" and "Amount Obligated to Recipients", Part I under (1) "Financial Status" – line item (2) under (A) "Total Funds" and line item B, respectively, were understated by \$1,301,919.

Good internal controls require procedures to be in place to ensure amounts reported to HUD on the CAPER are complete and accurate. As a result of these errors, the CAPER submitted to HUD was not accurate. The agency subsequently submitted a corrected report.

Recommendation:

We recommend the Mississippi Development Authority strengthen controls to ensure the accuracy and completeness of the annual Consolidated Annual Performance and Evaluation Report submitted to the U.S. Department of Housing and Urban Development.

SUBRECIPIENT MONITORING

Control Deficiency

Immaterial Noncompliance

14.228

Community Development Block Grant/State's Program

Federal Award Number and Year: B-10-DC-28-0001; 2010

Oth-05

Controls Should Be Strengthened over Subrecipient Monitoring Requirements

Finding:

The *Code of Federal Regulations* (29 CFR Section 99.400(d)(4)) requires a pass-through entity to ensure subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of the OMB Circular A-133. The Mississippi Development Authority (MDA) ensures its subrecipients of federal grant awards meet this requirement by reviewing the subrecipient's annual A-133 audit or by approving an exemption status by reviewing a completed Fund Certification Form (FCF). Subrecipients' expenditures of federal grant monies for the fiscal year are compiled by MDA using a financial tracking spreadsheet. This tracking spreadsheet is used to populate the audit log spreadsheet that MDA uses to track the current audit status of all subrecipients. During our testwork, we noted four instances, out of 63 subrecipients reviewed, in which MDA did not accurately track the status of a subrecipient's A-133 audit report or exemption. The instances are listed below.

- One instance was noted in which a subrecipient was erroneously excluded from the audit log as receiving CDBG funds for the fiscal year audited. Therefore, no A-133 Audit or FCF was received.
- One instance was noted in which an audit was misfiled and was mistakenly cleared on the audit log without a review being performed on the audit. The audit received was not an A-133

audit and no FCF was received.

- One instance was noted in which MDA did not begin tracking the audit status of the subrecipient until ten months following the due date of the audit or FCF.
- One instance was noted in which the agency failed to properly follow-up with a past due letter when the A-133 audit or FCF was not received timely. The audit was received nine months following the due date.

The four errors resulted in the agency not following up, or not following up timely, to ensure the subrecipients submitted an A-133 audit report or an exemption. Failure to accurately and timely track the status of a subrecipient's A-133 audit or exemption could result in noncompliance with federal regulations and could also result in MDA funding a subrecipient that did not comply with federal regulations.

Recommendation:

We recommend the Mississippi Development Authority strengthen controls over subrecipient monitoring to ensure the agency accurately tracks and follows up timely on the status of each subrecipient to determine if the subrecipient is required to have an OMB Circular A-133 audit or is exempt from having an OMB Circular A-133 audit.

End of Report