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**BANKS, FINLEY,
WHITE & CO.**
CERTIFIED PUBLIC ACCOUNTANTS

January 26, 2007

Ms. Claudine Gee
Vice President for Business Affairs
Alcorn State University
1000 ASU Drive #509
Alcorn State, MS 39096-7500

Dear Ms. Gee:

During our audit of the University's financial statements for the year ended June 30, 2006, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We have discussed these comments and suggestions with various University personnel, and we will be pleased to discuss these comments in further detail at your convenience.

Attached are our findings and recommendations. All of these findings are considered to be immaterial.

We appreciate the courtesy extended to us during the performance of this engagement.

Sincerely,

Kaiser R. Brown, CPA

Attachment

ALCORN STATE UNIVERSITY
Findings and Recommendations
June 30, 2006

W/P No.	2-1
Done By	DEJ
Date	10/03/2006

Other Findings

The following deficiencies in internal controls came to our attention during our audit that we believe should be brought to management's attention:

PAYROLL

1 Finding

During our review of payroll, we found that amounts per the payroll records, the general ledger and the financial statements did not reconcile. The University was unable to document the difference which totaled \$ 119.887, which cause the financial statements have a difference when compared to the payroll records.

Recommendation

The University should adopt administrative control procedures to ensure that payroll records are reconciled to the accounting records at year end. Additionally, Supporting documentation for any differences or adjustments between the payroll records, the general ledger and the financial statements should be maintained by the institution.

2 Finding

During our reconciliation of salaries and wages we found the following:

- A Current year accrued salaries in the amount of \$90,435 was not recorded in the accounting records and included in the financial statements at year end.

Recommendation

The university should implement accounting procedures to ensure that all accruals are identified and recored in the accounting records at year end in order to provide accurate and complete financial statements.

3 Finding

During our test of controls over payroll out of a sample of forty (40), we found seven (2) instances where the university was unable to locate an employee contract for employees that were on payroll.

Recommendation

The University should adopt administrative control procedures to ensure that an executed employment contract is completed and maintained on file. Additionally, all employment contract should be updated to reflect the actual rate being paid its employees. Any and all changes made to the employee pay rate should be put in writing and approved by an authorized official of the University. This employment contract serves as the official document for which all employees are paid.

4 Finding

During our test of controls over payroll out of a sample of forty (20) transactions, we found nine (9) cases where the direct deposit/payroll check signature forms was not made available for our review in order to verify that the employee had signed the form as evidence that they had received their direct deposit voucher or check stub.

Recommendation

The University should improve administrative control procedures to ensure that all employees sign the proper forms and follow proper procedures when picking up their direct deposit vouchers and paycheck stubs. These forms are used to verify that the employees did actually receive their vouchers/stubs.

- 5 During our test of controls over payroll out of a sample of forty (40) transactions, we found that one employee was over paid by \$514.08. Secondly, we found that client could not provide an explanation as to why two (2) employees contract amounts did not match the YTD amounts on the payroll register.

Recommendation

The University should adopt administrative control procedures to ensure that an executed employment contract is completed and maintained on file. Additionally, all employment contracts should be updated to reflect the actual rate being paid its employees. Any and all changes made to the employee pay rate should be put in writing and approved by an authorized official of the University. This employment contract serves as the official document for which all employees are paid.

NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

Finding

- 6 The institution did not maintain adequate documentation to support amounts presented as operating expenses on the Natural Classification with Functional Classifications note to the financial statements.

Recommendation

The University should adopt administrative control procedures to ensure that supporting documentation for amounts presented in the university's financial statements is maintained and made available for the audit.

MAINTAINING SUPPORTING DOCUMENTATION FOR THE PURCHASE OF GOODS AND SERVICES

Finding

- 7 During our test of controls over expenditures other than payroll, we found the following:
- A Out of a sample of forty (40) transactions, two (2) transactions lack supporting documentation.
 - B Out of a sample of forty (4) transactions, two (2) transactions were miscoded to travel in the amount of \$3,795 of that amount \$1,900 was for scholarships and \$1,895 was for fees.

Recommendation

The University should adopt administrative control procedures to ensure that expenditures for goods and services are supported by adequate documentation and filed in a manner that is systematic and readily retrievable from the filing system. Additionally, all expenditures should be properly coded and classified in the accounting records.

STATE APPROPRIATIONS RESTRICTED FOR CAPITAL PURPOSES

Finding

- 8 During our review of the annual report from the State Office of Building, Grounds and Real Property Management, we found that State Appropriations Restricted for Capital Purposes revenue reported in ASU's financial statement was understated by \$2,875,651. Based upon our analysis, this occurred because Capital assets and repairs and renovations expenditures paid by the State office of Buildings, Grounds, and Real Property Management had not been recorded in the accounting by the University accounting personnel.

Recommendation

The University should adopt administrative control procedures to ensure that costs incurred by the State Office of Buildings, Grounds, and Real Property Management (such as furniture and equipment and , construction in progress, etc.) are recorded in the accounting records to properly report the amount of state appropriations restricted for capital purposes.

UPDATING DEPRECIATION SCHEDULES FOR CAPITAL ASSETS

9 Finding

- A. During our review of the depreciation schedules for the year ended June 30, 2006, we found that cost of buildings resulting from projects that were completed during the year were not included on the depreciation schedule for the year ended June 30, 2006. This cost totaled \$8,811,499.74.
- B. During our review of the depreciation schedules for the year ended June 30, 2006, we found that cost for the purchase of furniture and equipment was not added to the depreciation schedule for the year ended June 30, 2006. This cost totaled \$611,204.
- C. We were unable to reconcile that capital assets acquired by the University and by the State Office of Buildings, Grounds, and Real Property Management during the year to the depreciation schedules.

Recommendation

The University should adopt administrative control procedures to identify all capital assets acquired during year by the University and the State Office of Buildings, Grounds, and Real Property Management that should be capitalized in accordance with the GASB 34 reporting module. Once these items are identified they should be added to the depreciation schedule and depreciated in accordance with the State Depreciation policy. Additionally, an effort should be made to update the depreciation schedule in a timely manner.

RECEIVABLES

9 Finding

During our review of restricted accounts receivable, we found that net receivable in the amount of \$1,838,043.04 was recorded on the books could not be supported. Thus the amount was written off.

Recommendation

Accounts receivable should be evaluated and assessed as to the collectibility of such receivables to ensure that accurate financial statements are prepared and presented.

ANNUAL LEAVE

10 Finding

During our test of the Annual Leave for the fiscal year then ended June 30, 2006 the following deficiencies were noted:

- A Out of a sample of forty (40) transactions, sixteen (16) employees annual leave and sick leave earned were calculated incorrectly when recomputed according to ASU's personal leave (vacation) form of rates.
- B Out of a sample of forty (40) transactions, twenty-one (21) employees Annual Leave hours used were recorded incorrectly according to our review of the employees' leave forms.
- C Out of a sample of forty (40) transactions, twelve (12) employees sick leave hours used were recorded incorrectly according to a review of the employees' leave forms.
- D Out of a sample of forty (40) transactions, twelve (12) employees annual leave and sick leave balances recomputed for fiscal year ended 6/30/06 did not agree with leave balances identified on ASU's employee leave history reports.

Recommendation

The University should adopt administrative control procedures to ensure that annual and sick leave earned and used by employees are recorded in the accounting records and reconciled with amounts identified on ASU accounting system reports to accurately report the correct amount of leave hours for all employees.