



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR

PHIL BRYANT
State Auditor

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Director, Financial and Compliance Audit Division

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ALCORN STATE UNIVERSITY

Audited Financial Statements
For the Year Ended June 30, 1997

ALCORN STATE UNIVERSITY

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ALCORN STATE UNIVERSITY

FINANCIAL AUDIT REPORT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR-S REPORT ON THE GENERAL PURPOSE FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

April 16, 1999

Board of Trustees
Institutions of Higher Learning
Jackson, Mississippi

We have audited the general purpose financial statements of Alcorn State University as of and for the year ended June 30, 1997, as listed in the table of contents. These general purpose financial statements are the responsibility of Alcorn State University's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The university did not have adequate records documenting the existence, valuation, completeness and presentation of cash receipts. Due to the nature of the university's records, we were unable to satisfy ourselves as to the fair presentation of the accounts affected by cash receipts.

The university did not have adequate records documenting the existence, valuation, completeness and presentation of Restricted Fund accounts receivable. Due to the nature of the university's records, we were unable to satisfy ourselves as to the fair presentation of Restricted Fund accounts receivable and related operations.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the cash receipts and Restricted Fund accounts receivable and related operations, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Alcorn State University as of June 30, 1997, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 16, 1999 on our consideration of Alcorn State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the cash receipts and Restricted Fund accounts receivable and related operations, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.



PHIL BRYANT
State Auditor



RAMONA HILL, CPA
Director, Financial and Compliance Audit Division

ALCORN STATE UNIVERSITY

AUDITED FINANCIAL STATEMENTS

ALCORN STATE UNIVERSITY
 Balance Sheet
 June 30, 1997
 (With Comparative Figures at June 30, 1996)

Exhibit A

ASSETS	Current Year	Prior Year	LIABILITIES AND FUND BALANCES	Current Year	Prior Year
Current Funds			Current Funds		
Current Unrestricted Funds:			Current Unrestricted Funds:		
Cash and other deposits (Note 5)	\$ 8,268,851	9,433,913	Accounts payable and accrued expenses	\$ 1,880,093	804,036
Accounts receivable:			Accrued leave (Note 3)	991,307	897,951
Students, less allowance of			Deposits refundable	182,814	267,284
\$3,812,850 (1997) and			Due to other funds	412,567	4,027,470
\$4,306,872 (1996)	1,226,796	329,677	Deferred credits	1,139,919	769,336
Other	246,028	195,945	Fund balances:		
Inventories	91,484	60,817	Unallocated		
Prepaid items and deferred charges	540,475	429,302	General	11,091,841	9,371,738
Due from other funds	8,233,497	8,982,496	Designated	897,269	1,460,095
			Auxiliary	2,011,321	1,834,240
Total Current Unrestricted Funds	<u>18,607,131</u>	<u>19,432,150</u>	Total Current Unrestricted Funds	<u>18,607,131</u>	<u>19,432,150</u>
Current Restricted Funds:			Current Restricted Funds:		
Cash and other deposits (Note 5)	390,468	838,877	Accounts payable and accrued expenses	544,204	136,043
Other accounts receivable	3,108,665	2,876,065	Accrued leave (Note 3)	365,242	320,468
Prepaid items and deferred charges	109,831	82,078	Due to other funds	8,057,421	5,476,053
Due from other funds	124,887	445,884	Deferred credits		46,882
			Fund balance:		
Total Current Restricted Funds	<u>3,733,851</u>	<u>4,242,904</u>	Allocated (Note 18)	(5,233,016)	(1,736,542)
			Total Current Restricted Funds	<u>3,733,851</u>	<u>4,242,904</u>
Total Current Funds	<u>\$ 22,340,982</u>	<u>23,675,054</u>	Total Current Funds	<u>\$ 22,340,982</u>	<u>23,675,054</u>
Loan Funds			Loan Funds		
Cash and other deposits (Note 5)	\$ 347,487	113,706	Accounts payable and accrued expenses	\$ 10,537	2,825
Accounts receivables:			Due to other funds	50,000	
Other, less allowance of \$0 (1997) and \$149,070 (1996)	33,642	17,503	Fund balances:		
Notes receivable:			Federal	94,228	243,957
Federal student loans, less allowance of			Institution	1,179,709	
\$1,541,095 (1997) and					
\$1,541,095 (1996) (Note 8)	48,093	52,224			
Small Farm Development loans (Note 8)	839,288				
Due from other funds	65,964	63,349			
Total Loan Funds	<u>\$ 1,334,474</u>	<u>246,782</u>	Total Loan Funds	<u>\$ 1,334,474</u>	<u>246,782</u>

Endowment and Similar Funds		
Land grant principal (Note 7)	\$ 209,871	209,871
	<u> </u>	<u> </u>
Total Endowment & Similar Funds	\$ <u>209,871</u>	<u>209,871</u>
Plant Funds		
Cash and other deposits (Note 5)	\$ 166,382	165,924
Investments (Note 6)	976,248	284,828
Land	845,790	245,790
Improvements other than buildings	1,592,051	1,561,893
Buildings	42,869,970	41,340,170
Furniture, machinery and equipment	9,754,249	9,361,003
Books and films	10,578,221	10,333,705
Livestock	68,424	68,006
Construction in progress (Note 11)	<u>13,024,661</u>	<u>7,756,044</u>
	<u> </u>	<u> </u>
Total Plant Funds	\$ <u>79,875,996</u>	<u>71,117,363</u>
Agency Funds		
Cash and other deposits (Note 5)	\$ 301,069	232,705
Due from other funds	95,640	11,794
Deferred compensation plan assets at fair market value (Note 16)	<u> </u>	<u>145,713</u>
	<u> </u>	<u> </u>
Total Agency Funds	\$ <u>396,709</u>	<u>390,212</u>

Endowment and Similar Funds		
Fund balances:		
Land grant principal	\$ <u>209,871</u>	<u>209,871</u>
	<u> </u>	<u> </u>
Total Endowment & Similar Funds	\$ <u>209,871</u>	<u>209,871</u>
Plant Funds		
Bonds payable (Note 9)	\$ 857,000	220,000
Fund balances:		
Unexpended plant	673,894	
Renewals and replacements	248,017	240,261
Retirement of indebtedness	220,719	210,491
Net investment in plant	<u>77,876,366</u>	<u>70,446,611</u>
	<u> </u>	<u> </u>
Total Plant Funds	\$ <u>79,875,996</u>	<u>71,117,363</u>
Agency Funds		
Accounts payable and accrued expenses	\$ 297	39,569
Due to depositors	396,412	350,643
	<u> </u>	<u> </u>
Total Agency Funds	\$ <u>396,709</u>	<u>390,212</u>

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

ALCORN STATE UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1997

Exhibit B

	Current Funds			Loan Funds	Endowment and Similar Funds	Plant Funds			
	Unrestricted	Restricted	Total			Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenues and Other Additions									
Tuition and fees	\$ 8,281,853		8,281,853						
State appropriations	18,327,999		18,327,999	980,000		8,946,825			
Federal grants and contracts		12,629,414	12,629,414						
State grants and contracts		390,215	390,215						
Private gifts, grants & contracts		292,280	292,280						
Investment income	372,669		372,669			23,636	7,756	10,228	
Interest on loans receivable				31,519					
Proceeds from bonds						669,800			
Recoveries of bad debts	494,022		494,022						
Additions to plant facilities									8,821,762
Retirement of indebtedness									43,000
Sales and services of educational activities	605,420		605,420						
Sales and services of auxiliary activities	4,752,147		4,752,147						
Independent operations									
Other	537,505		537,505	38,855					
Total Rev. & Other Additions	<u>33,371,615</u>	<u>13,311,909</u>	<u>46,683,524</u>	<u>1,050,374</u>		<u>9,640,261</u>	<u>7,756</u>	<u>10,228</u>	<u>8,864,762</u>
Expenditures & Other Deductions									
Educational and general:									
Instruction	11,896,954	1,942,869	13,839,823						
Research	553,134	5,836,979	6,390,113						
Public service	1,670,723	1,082,731	2,753,454	50,000					
Academic support	1,187,126	7,794	1,194,920						
Student services	2,359,325	368,046	2,727,371						
Institutional support	3,640,959	1,089,630	4,730,589						
Operation & maintenance of plant	2,631,053	998	2,632,051						
Student aid	2,761,822	4,921,332	7,683,154						
Total Educational and General	<u>26,701,096</u>	<u>15,250,379</u>	<u>41,951,475</u>	<u>50,000</u>					
Auxiliary	5,027,496		5,027,496						
Loan cancellations and write-offs				23,185					
Refunds of federal capital contributions				111,909					
Repairs and maintenance						2,167,951			
Expended for plant facilities						6,798,416			
Plant assets sold or retired									755,007

Retirement of indebtedness							43,000		
Interest on indebtedness							7,609		
Long-term debt incurred									680,000
Provision for accrued leave	<u>93,356</u>	<u>44,774</u>	<u>138,130</u>						
Total Expenditures and Other Deductions	<u>31,821,948</u>	<u>15,295,153</u>	<u>47,117,101</u>	<u>185,094</u>		<u>8,966,367</u>		<u>50,609</u>	<u>1,435,007</u>
Transfers - Additions (Deductions)									
Mandatory:									
Principal and interest	<u>(50,609)</u>		<u>(50,609)</u>					<u>50,609</u>	
Total Mandatory	<u>(50,609)</u>		<u>(50,609)</u>					<u>50,609</u>	
Other:									
Other	<u>(164,700)</u>		<u>(164,700)</u>	<u>164,700</u>					
Total Other	<u>(164,700)</u>		<u>(164,700)</u>	<u>164,700</u>					
Total Transfers	<u>(215,309)</u>		<u>(215,309)</u>	<u>164,700</u>				<u>50,609</u>	
Net Increase (Decr.) for Year	<u>1,334,358</u>	<u>(1,983,244)</u>	<u>(648,886)</u>	<u>1,029,980</u>		<u>673,894</u>	<u>7,756</u>	<u>10,228</u>	<u>7,429,755</u>
Fund Balance at Beg. of Year									
As Previously Reported	12,666,073	(1,736,542)	10,929,531	243,957	209,871	0	240,261	210,491	70,446,611
Adjustments (Note 4)		<u>(1,513,230)</u>	<u>(1,513,230)</u>						
Restated	<u>12,666,073</u>	<u>(3,249,772)</u>	<u>9,416,301</u>	<u>243,957</u>	<u>209,871</u>	<u>0</u>	<u>240,261</u>	<u>210,491</u>	<u>70,446,611</u>
Fund Balance at End of Year	<u>\$ 14,000,431</u>	<u>(5,233,016)</u>	<u>8,767,415</u>	<u>1,273,937</u>	<u>209,871</u>	<u>673,894</u>	<u>248,017</u>	<u>220,719</u>	<u>77,876,366</u>

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

ALCORN STATE UNIVERSITY
Statement of Current Fund Revenues, Expenditures and Other Changes
For the Year Ended June 30, 1997
(With Comparative Figures for the Year Ended June 30, 1996)

Exhibit C

	Current Year			Prior Year
	Unrestricted	Restricted	Total	Total
Revenues and Other Additions				
Tuition and fees	\$ 8,281,853		8,281,853	8,097,673
State appropriations	18,327,999		18,327,999	18,165,068
Federal grants and contracts		14,567,884	14,567,884	13,277,330
State grants and contracts		390,215	390,215	227,426
Private gifts, grants and contracts		292,280	292,280	
Investment income	372,669		372,669	351,906
Recoveries of bad debts	494,022		494,022	
Sales and services of educational activities	605,420		605,420	630,175
Sales and services of auxiliary activities	4,752,147		4,752,147	5,516,323
Other	537,505		537,505	573,939
Total Revenues and Other Additions	33,371,615	15,250,379	48,621,994	46,839,840
Expenditures & Mandatory Transfers				
Educational and general:				
Instruction	11,896,954	1,942,869	13,839,823	13,916,177
Research	553,134	5,836,979	6,390,113	3,868,787
Public service	1,670,723	1,082,731	2,753,454	4,617,163
Academic support	1,187,126	7,794	1,194,920	1,367,481
Student services	2,359,325	368,046	2,727,371	2,322,041
Institutional support	3,640,959	1,089,630	4,730,589	2,580,384
Operation & maintenance of plant	2,631,053	998	2,632,051	2,833,482
Student aid	2,761,822	4,921,332	7,683,154	8,683,739
Total Educational and General Expenditures	26,701,096	15,250,379	41,951,475	40,189,254
Auxiliary enterprises:				
Expenditures	5,027,496		5,027,496	5,175,967
Mandatory transfers:				
Principal and interest	50,609		50,609	52,027
Total Auxiliary Enterprises	5,078,105		5,078,105	5,227,994
Total Expenditures and Mandatory Transfers	31,779,201	15,250,379	47,029,580	45,417,248
Other Transfers - Additions (Ded.)				
Excess restricted receipts over expenditures & mandatory transfers		(1,938,470)	(1,938,470)	284,168
Other	(164,700)		(164,700)	45,310
Provision for uncollectible accounts				(44,894)
Provision for accrued leave	(93,356)	(44,774)	(138,130)	(88,425)
Total Other Transfers - Additions (Deductions)	(258,056)	(1,983,244)	(2,241,300)	196,159
Net Change in Fund Balance	\$ 1,334,358	(1,983,244)	(648,886)	1,618,751

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

ALCORN STATE UNIVERSITY

Summary of Significant Accounting Policies
For the Year Ended June 30, 1997

The significant accounting policies followed by Alcorn State University are described below to enhance the usefulness of the financial statements to the reader.

(1) Basis of Accounting.

The financial statements have been prepared generally in accordance with the accounting principles outlined in the Financial and Reporting Manual for Higher Education, and the American Institute of Certified Public Accountants Industry Audit Guide on Audits of Colleges and Universities.

The accompanying financial statements have been prepared generally on the accrual basis with the following exceptions, which are common practices in colleges and universities:

- A. Depreciation on physical plant and equipment has not been provided.
- B. To the extent that Current Funds are used to finance plant assets, the amounts so provided are accounted for as (a) expenditures, in the case of normal acquisition and/or replacement of moveable equipment and library books; (b) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewals and replacements; and (c) transfers of a nonmandatory nature for all other cases.
- C. Interest on student loans is recorded only when received.
- D. Interest expense on debt is recorded when paid.

Gifts, grants and pledges are generally recorded when received or when billable.

Investments are recorded at cost if purchased or if acquired by gift at fair market value at the time of donation.

Property, buildings and equipment are stated at cost at the date of acquisition or fair market value at date of donation. Improvements made as part of repair and renovation projects are capitalized based upon institution estimates which approximate cost. Public domain (infrastructure) fixed assets consisting of certain improvements other than buildings, such as roads, bridges, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the institution, are capitalized.

Merchandise for resale inventories and consumable supply inventories are stated at cost, with cost being determined principally by the first-in, first-out method. Livestock inventories are valued at anticipated net realizable value.

All revenues and related expenditures incurred in connection with summer sessions are reported within the fiscal year in which the summer sessions are predominantly conducted.

Service activities at the institution are those activities which provide general services benefiting many funds. Service activities include a printing center, telephone exchange, postal office, central stores and transportation departments. Such activities are maintained during the fiscal year as Unrestricted General Funds for management purposes. These activities' expenditures are allocated to other funds based upon a user charge system.

ALCORN STATE UNIVERSITY

Summary of Significant Accounting Policies
For the Year Ended June 30, 1997

(2) Fund Accounting.

In order to insure observance of limitations and restrictions placed on the use of the resources available, the accounts of the institution are maintained in accordance with the principles of "fund accounting." This accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The Current Funds are used primarily to account for transactions which are expended in performing the primary and support objectives of the institution.

Current Funds consist of the following:

- A. The Unrestricted Fund which is used to account for:
 - 1. The appropriated budget as approved by the Mississippi State Legislature and the Board of Trustees of State Institutions of Higher Learning.
 - 2. The unrestricted resources designated for specific purposes by the institution's administration.
 - 3. The transactions of substantially self-supporting activities that primarily provide services for students, faculty and staff.
- B. The Restricted Fund which is used to account for Current Funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

Other funds consist of the following:

- A. The Loan Funds are used to account for loans to students and small farm owners. Resources to provide loans are derived primarily from the federal and state governments. Provisions of the federal loan program stipulate that:
 - 1. The institution's matching share is one-third of the federal contributions.
 - 2. A portion of the loan principal and interest (maximum of 30% per year) will be canceled and absorbed by the federal government, if the recipient completes certain employment requirements.Provisions of the state loan program stipulate that:

Borrower will pay back loan proceeds (at 0% interest) within agreed upon time frame (usually three years).
- B. Endowment Funds receive funds from a donor with the restriction that only the income is to be expended.

ALCORN STATE UNIVERSITY

Summary of Significant Accounting Policies
For the Year Ended June 30, 1997

- C. The Plant Funds which are used to account for the transactions relating to institution physical properties include:
1. The Unexpended Plant Fund which is comprised of amounts which have been appropriated or designated for the purchase of institution physical properties or the repair and maintenance of such physical properties.
 2. The Renewals and Replacements Plant Fund which represents reserves to provide for maintenance and equipment replacement, established primarily pursuant to terms of bond indentures.
 3. The Retirement of Indebtedness Plant Fund which represents resources held for the retirement of and interest on debt and includes sinking funds established under bond indentures and note and lease amortization payments accumulated, but not yet due.
 4. The Investment in Plant Fund which represents the total physical properties in service by the institution and all construction in progress as well as any associated liabilities.
- D. Agency Funds account for assets held by the institution as custodian or fiscal agent for others. Consequently, the transactions of this fund do not affect the statement of changes in fund balances.

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1997

(1) Financial Reporting Entity.

In accordance with Governmental Accounting Standards Board Statement Number 14, the Alcorn State University Building Corporation (the "Corporation") is deemed a component unit of the institution.

The Corporation is a nonprofit corporation incorporated in the state of Mississippi with the approval of the Board of Trustees of State Institutions of Higher Learning. The purpose of the corporation is for the acquisition, construction, and equipping of facilities and land for the institution. The Board of Directors of the Corporation is composed of designated officers of the institution.

(2) Appropriations - General Operations.

Alcorn State University is a state supported institution that receives annual appropriations for operations from the state of Mississippi. The laws of the state and the policies and procedures specified by the state for state agencies and institutions are applicable to the activities of the institution.

(3) Accrued Leave.

Twelve-month employees earn annual personal leave at a rate of 12 hours per month for zero to three years of service; 14 hours per month for three to eight years of service; 16 hours per month for eight to 15 years of service; and from 15 years of service and over, 18 hours per month are earned. There is no requirement that annual leave be taken and there is no maximum accumulation. At termination, these employees are paid for up to 240 hours of accumulated annual leave.

Nine-month employees earn major medical leave at a rate of 13 1/3 hours per month for one month to three years of service; 14 1/5 hours per month for three to eight years of service; 15 2/5 hours per month for eight to 15 years of service; and from 15 years of service and over, 16 hours per month are earned. There is no limit on the accumulation of sick leave. At retirement, these employees are paid for up to 240 hours of accumulated major medical leave.

The liability for accrued leave at June 30, 1997, as reported in the Current Funds, was as follows:

Accumulated annual leave	\$	1,194,366
Accumulated major medical leave		<u>162,183</u>
Total	\$	<u>1,356,549</u>

(4) Prior Period Adjustments.

For the year ended June 30, 1997, the institution recorded prior period adjustments which consisted of the following deduction to the fund balance:

<u>Explanation</u>	<u>(Deduction)</u>
Current Restricted Fund:	
To correct misstatements of accounts receivable balances. These misstatements arose from prior year posting errors.	\$ <u><u>(1,513,230)</u></u>

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1997

(5) Cash and Other Deposits.

For financial statement purposes cash and other deposits are represented by demand accounts and time deposits such as savings accounts, certificates of deposit and U.S. Treasury bills with a maturity of one year or less as of June 30, 1997. Also, included in this account are imprest cash accounts held by the institution. The institution participates in the State of Mississippi Securities Pledged Collateral Pool (the Pool) which includes funds on deposit at the following banks:

- Trustmark National Bank
- Deposit Guaranty National Bank
- Bank of Mississippi
- Union Planters National Bank
- Hancock Bank

The Pool is monitored by the State Treasurer's Office. The carrying amount of cash deposits for all state entities participating in the Pool at June 30, 1997 was \$258,070,000 and the corresponding depository balances which are represented by collected funds were \$247,082,000. The portion of such depository balances covered by federal depository insurance or by collateral held by the institution's agent in the name of the institution was \$226,241,000. In addition, \$12,871,000 was collateralized with securities held by a pledging financial institution's agent in the entities name. The remaining \$7,970,000 was collateralized with securities held by a pledging financial institution or was uninsured and uncollateralized.

The following schedule presents the carrying amounts and depository balances for the Alcorn State University funds included in the State of Mississippi Securities Pledged Collateral Pool. The schedule also presents information concerning funds held at depositories not included in the Pool, and the securities pledged as collateral for these funds. The depository balances include accrued interest.

	Carrying Amount	Depository Balance	Total	Securities Pledged as Collateral		
				(1)	(2)	(3)
Funds included in state collateral pool	\$ 79,074	80,871		(see explanation above regarding securities pledged - State of Mississippi Securities Pledged Collateralization Pool)		
Funds not included in state collateral pool	8,895,196	12,619,092	\$ 12,619,092	535,751	12,083,341	
U.S. Treasury bills and notes	499,987	499,987	N/A	N/A	N/A	N/A
Totals	\$ 9,474,257	13,199,950				

- (1) Funds were fully insured or collateralized with securities held by the institution or its agent in the name of the institution.
- (2) Funds were collateralized with securities held by a pledging financial institution's trust department or agent in the institution's name.
- (3) Funds were collateralized with securities held by a pledging financial institution or were uninsured and uncollateralized.

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1997

(6) Investments.

The following table presents the carrying and market value of investments by type and categorizes the carrying amounts as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
Mutual funds	\$ <u>976,248</u>	<u>976,248</u>
Total	\$ <u><u>976,248</u></u>	<u><u>976,248</u></u>

(7) Endowment Fund Investment - Land Grant Principal.

Endowment Fund investments include the land grant principal fund of \$209,871. The State of Mississippi Legislature makes an annual appropriation from the state General Fund which approximates 6% interest on this asset.

(8) Notes Receivable From Borrowers.

Notes receivable from borrowers are payable in installments over a period of up to ten years, commencing three to 12 months from the date of separation from the institution. The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the institution at June 30, 1997.

	<u>Interest Rates</u>	<u>Unpaid Balance 6-30-97</u>
Perkins student loans	3-5%	\$ 1,589,188
Small Farm Development loans	0%	<u>839,288</u>
Total Notes Receivable		2,428,476
Less: Allowance for Doubtful Accounts		<u>1,541,095</u>
Net Notes Receivable		\$ <u><u>887,381</u></u>

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1997

(9) Long-term Debt.

The institution has long-term obligations of the following:

Description and Purpose	Original Issue	Annual Interest Rate	Maturity Date	Amount Owed at 6-30-97
Bonded Debt				
Revenue bonds:				
Student & faculty bonds of 1959	\$ 385,000	2.875%	11-01-1999	\$ 45,000
Dormitory bonds of 1962	560,000	3.50%	6-01-2001	88,000
Student Union bonds of 1964	200,000	2.50%	11-01-2002	44,000
Alcorn State University EBC of 1996	<u>680,000</u>	5.779%	7-15-2011	<u>680,000</u>
Total Bonded Debt	\$ <u>1,825,000</u>			\$ <u>857,000</u>

Annual requirements to amortize outstanding long-term debt are as follows:

Year Ending June 30	Bonds
1998	\$ 138,286
1999	122,811
2000	119,711
2001	97,468
2002	81,468
Later years	<u>675,442</u>
Total	1,235,186
Less: Amounts Representing Interest	<u>378,186</u>
Total at Present Value	\$ <u>857,000</u>

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1997

(10) Operating Leases.

Leased property under operating leases is composed of one agreement to lease 45 acres of land in Bolivar County (Mississippi) for the operation of a demonstration farm and training center. The following is a schedule by years of the future minimum rental payments required under those operating leases:

Year Ending June 30	Amount
1998	\$ 1,800
1999	1,800
2000	1,800
2001	1,800
2002	1,800
Remaining years	<u>23,400</u>
Total Minimum Payments Required	<u>\$ 32,400</u>

The total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the fiscal year ending June 30, 1997, was \$1,800.

(11) Construction Commitments and Financing.

The institution has contracted for the construction of the following projects. The remaining costs are to be funded by state appropriations funded through the Bureau of Building, Grounds and Real Property Management.

Project	Cost to Complete
Construction of a math/science building	\$ 3,359,359
Construction of a nursing school dormitory	1,116,360
Construction of a library addition	<u>8,468,887</u>
Total	<u>\$ 12,944,606</u>

(12) Pension Plan.

Plan Description. The institution contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1997

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the State of Mississippi Legislature. The institution's contributions to PERS for the years ending June 30, 1997, 1996 and 1995 were \$1,807,995, \$1,750,117 and \$1,588,130, respectively, equal to the required contributions for each year.

(13) Workers' Compensation Plan.

The university participates in a self-funded Workers' Compensation Plan (the Plan) along with the other public four-year universities of the state. The Plan exists in order to provide a mechanism for the State Institutions of Higher Learning (IHL) to fund and budget for the costs of providing workers' compensation benefits to eligible employees. The Plan does not pay benefits directly to employees. Rather, funds are set aside in trust and a third party Plan administrator is utilized to distribute the benefits to eligible employees. The assets of the Plan at June 30, 1997 were \$2.341 million.

A professionally licensed actuarial firm was contracted to prepare a report setting forth estimated reserves for the Plan as of June 30, 1997. This report estimates that contingent liabilities exceed Plan assets by \$1.814 million as of June 30, 1997.

(14) Unemployment Trust Fund.

The university participates in a self-funded Unemployment Trust Fund (the Fund) along with the other public four-year universities of the state. The Fund exists in order to provide a mechanism for the State Institutions of Higher Learning (IHL) to fund and budget for the costs of providing unemployment compensation benefits to eligible former employees. The Fund does not pay benefits directly to former employees. Rather, it reimburses the Mississippi Employment Security Commission for benefits it pays directly to former IHL employees. The assets of the Fund at June 30, 1997 were \$944,086 and the liabilities were \$92,768.

A professional licensed actuarial firm was contracted to perform an actuarial analysis of the Fund as of June 30, 1997. They determined the recommended funding requirement as of June 30, 1997 is \$800,000 to \$1,000,000. Furthermore, they concluded that the actual fund balance of \$851,318 at June 30, 1997 is reasonable.

(15) Tort Liability Trust Fund.

The university participates in a self-funded Tort Liability Trust Fund (the Trust Fund) along with the other public four-year universities of the state. In accordance with Section 11-46 of Mississippi State Law, the Mississippi Tort Claims Board has authorized the Board of Trustees of State Institutions of Higher Learning (IHL Board) to establish a fund in order to self-insure a certain portion of its liability under the Mississippi Tort Claims Act. The IHL Board established the Trust Fund to provide for self-insurance.

Effective July 1, 1993, Mississippi statute permitted tort claims to be filed against the State Institutions of Higher Learning. A maximum limit of liability of \$50,000 per occurrence applies for claims or causes of action arising from acts or omissions occurring on or after July 1, 1993, but before July 1, 1997. There after the limit is increased to \$250,000 for the period July 1, 1997 through June 30, 2001, and is increased to \$500,000 after June 30, 2001.

ALCORN STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 1997

The assets of the Trust Fund at June 30, 1997 were \$3,290,532 and the liabilities were \$2,096,351. A professionally licensed actuarial firm was contracted to perform an actuarial analysis of the Trust Fund as of June 30, 1997. They concluded that the program appears to be adequately funded with a margin of conservatism.

(16) Deferred Compensation Plan.

Due to changes in federal law which the State of Mississippi elected to implement as of January 1, 1997, assets held in the deferred compensation plan available through the Mississippi Public Employees' Retirement System (PERS) are no longer subject to claims by creditors of the employing entity. Therefore, the institution is no longer required to report the assets and liabilities related to this plan in the Agency Fund.

(17) Foundation.

Alcorn State University Foundation, Inc. is an independent corporation formed for the purpose of receiving funds for the sole benefit of the institution. Following is a summary of the foundation's financial position at June 30, 1997, which amounts are not included in the financial statements of the institution:

<u>Assets</u>	<u>Amount</u>
Cash and investments	\$ 1,657,356
Investments	6,460,596
Pledge receivables	262,750
Other receivables	16,983
Interest receivable	<u>24,076</u>
Total Assets	<u>\$ 8,421,761</u>
 <u>Liabilities and Fund Balances</u>	
Accounts payable	\$ 5,500
Fund balances:	
Current Funds:	
Unrestricted	1,296,232
Restricted	<u>7,120,029</u>
Total Liabilities and Fund Balances	<u>\$ 8,421,761</u>

(18) Fund Deficits.

Alcorn State University's Current Restricted Fund had a deficit fund balance of \$5,233,016 at June 30, 1997. The deficit was primarily caused by a failure to submit requests for reimbursement of costs incurred and to draw down funds for various federal grants and contract programs. (See Finding 97-3 of the Schedule of Findings and Questioned Costs in this report for details.)

A portion of this deficit may be eliminated through future drawdowns of federal funds. However, it is likely the use of Current Unrestricted Funds will be necessary to eliminate part of this deficit.

ALCORN STATE UNIVERSITY

SUPPLEMENTAL INFORMATION

ALCORN STATE UNIVERSITY
 Schedule of Federal Financial Assistance
 For the Year Ended June 30, 1997

	Catalog of Federal Domestic <u>Assistance Number</u>	<u>Pass-through Entity Number</u>	<u>Federal Expenditures</u>
Major Programs			
Research:			
Department of Agriculture			\$
Payments to 1890 Land-Grant Colleges & Tuskegee University	10.205		1,698,300
1890 Institution Capacity Building Grants	10.216		349,538
Agriculture Research - Basic and Applied Research	10.001		(1,480)
Resource Conservation and Development	10.901		144,505
Housing Needs Assessment (Farmers' Home Administration)	10.FMHA 94-34		184
Environmental Justice Initiative SFSEC 1997 (N.R.C.S.)	10.68-7482-6-173		1,311
Indian Springs Project 1997 (N.R.C.S.)	10.68-4423-4-2470		390
Mississippi River Research Center (N.R.C.S.)	10.68-4423-6-3980		16,107
ACEP - Rural Business Development	10.UNKNOWN		45,872
Department of Health & Human Services			
Minority Biomedical Research Support	93.375		205,269
Nurse Training Improvement - Special Projects	93.359		57,206
Nursing Education - Opportunities for Individuals from Disadvantaged Backgrounds	93.178		6,686
Health Care Financing Research, Demonstrations and Evaluations	93.779		67,865
Environmental Protection Agency			
Freshwater Bioturbators	66.UNKNOWN		23,416
Department of the Interior			
Geological Survey - Research and Data Acquisition	15.808	MS State Univ.	5,591
Total Research			<u>2,620,760</u>
Student Financial Aid:			
Department of Education			
PELL Grant Program	84.063		3,891,952
Federal Supplemental Educational Opportunity Grant Program (FSEOG)	84.007		694,676
Federal Work-study Program (FWS)	84.033		431,217
William D. Ford Federal Direct Loan Program (Direct Loan) and Federal Family Education Loan Program (FFEL)	(1) 84.268 & 84.032		8,103,626
State Student Incentive Grants	84.069		10,771
Total Student Financial Aid			<u>13,132,242</u>

Other:			
Department of Agriculture			
Cooperative Extension - Food and Agricultural Act	10.500		3,436,312
Department of Education			
Title III - Strengthening Historically Black Colleges and Universities	84.031		1,415,634
Total Other			<u>4,851,946</u>
Total Major Programs			<u>20,604,948</u>
Other Federal Assistance			
National Science Foundation			
Mississippi Alliance for Minority Participation	47.UNKOWN		225,504
University of Southern Mississippi Mini Grant	47.UNKOWN	Univ. So. MS.	1,155
Department of Energy			
Summer Prep Camp	81.DE-FG01-94DP00400		18,114
Department of Education			
National Youth Sports Program	84.UNKNOWN		100,308
Upward Bound	84.047		199,140
Student Support Services	84.042		166,597
Minority Science Improvement	84.120A		21,032
Department of Defense			
Flood Control Projects	12.106		23,569
U.S. Army ROTC Project	12.000		248,292
Assessment of Riparian Plant Community	12.DACW39-95-K-0063		54,251
Department of Agriculture			
AG Hope Program	10.UNKNOWN		20,142
1890 Institution Capacity Building Grants	10.216		100,918
Technical Assistance & Training Grants	10.436		323,520
Small Farm Outreach Project 1998 (N.R.C.S.)	10.68-3A75-7-69		69,931
Capstone Project 1995	10.94-38411-0166	Virginia Tech	10,440
USDA Mini Conference 1997	10.UNKNOWN		1,048
Strengthening Small Business & Entrepreneurship Project	10.RBS - 96-08		32,192
Delta Economic Energy Dis. - Deed 1997	10.UNKNOWN		188,451
Grants for Agricultural Research, Special Research Grants	10.200		4,159
ACEP After School Program 1997	10.UNKNOWN		81,224
Corporation for Public Broadcasting			
NPPAG Mass Communications	7480-30016		31,574
CSG Mass Communications	7470-50026		87,318
National Aeronautical Space Administration			
Aerospace Education Services Project	43.001		5,562
Department of Labor			
Guided Transition to Employment 1996	17.200		30,067

Environmental Protection Agency		
Environmental Education 1996	66,951	82,030
Department of Health & Human Services		
Nurse Training Improvement - Special Projects	93,359	17,372
NIH Science Education Partnership Award	93,922	17,090
Total Other Federal Assistance		<u>2,161,000</u>
Total Federal Financial Assistance		\$ <u><u>22,765,948</u></u>

Notes to Schedule

This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the general purpose financial statements, with the following exceptions:

- (1) For purposes of this schedule, loans made to students under the William D. Ford Federal Direct Student Loan Program (CFDA #84.268) and/or the Federal Family Educational Loan Program (CFDA #84.032) are presented as federal expenditures. Neither the funds advanced to students, nor the outstanding loan balance is included in the financial statements since the loans are made and subsequently collected by private lending institutions.

ALCORN STATE UNIVERSITY

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

ALCORN STATE UNIVERSITY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR-S REPORT
ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

April 16, 1999

Board of Trustees
Institutions of Higher Learning
Jackson, Mississippi

We have audited the general purpose financial statements of Alcorn State University as of and for the year ended June 30, 1997, and have issued our report thereon dated April 16, 1999. Our report was qualified due to the nature of the university's records regarding cash receipts and the Restricted Fund accounts receivable and related operations. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the institution's general purpose financial statements are free of material misstatement, we performed tests of its 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. The results of our tests did not disclose any instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the institution in a separate letter dated April 16, 1999, which is included in this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the institution's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting 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 financial reporting that, in our opinion, could adversely affect the institution's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 97-1 through 97-14.

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 general purpose 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. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, we consider items 97-1, 97-2 and 97-3 to be material weaknesses.

This report is intended solely for the information and use of management, members of the Legislature, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PHIL BRYANT
State Auditor



RAMONA HILL, CPA
Director, Financial and Compliance Audit Division



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR-S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

April 16, 1999

Board of Trustees
Institutions of Higher Learning
Jackson, Mississippi

Compliance

We have audited the compliance of Alcorn State University with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1997. The institution's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the institution's management. Our responsibility is to express an opinion on the institution's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 institution's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the institution's compliance with those requirements.

As described in item 97-16 in the accompanying Schedule of Findings and Questioned Costs, the university did not comply with requirements regarding federal cash management that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the university to comply with requirements applicable to these programs.

As described in items 97-17 and 97-20 in the accompanying Schedule of Findings and Questioned Costs, the university did not comply with requirements regarding federal reporting that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the university to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraphs, Alcorn State University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1997.

Internal Control Over Compliance

The management of Alcorn State University 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 institution's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

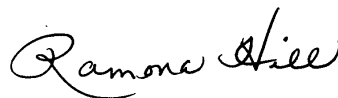
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our opinion, could adversely affect the institution's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 97-15 through 97-20.

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 and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period 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, of the reportable conditions described in the findings referred to above, we consider items 97-16, 97-17 and 97-20 to be material weaknesses.

This report is intended solely for the information and use of management, members of the Legislature, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PHIL BRYANT
State Auditor



RAMONA HILL, CPA
Director, Financial and Compliance Audit Division

ALCORN STATE UNIVERSITY

INDEPENDENT AUDITOR-S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

ALCORN STATE UNIVERSITY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR-S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

April 16, 1999

Board of Trustees
Institutions of Higher Learning
Jackson, Mississippi

We have audited the general purpose financial statements of Alcorn State University as of and for the year ended June 30, 1997, and have issued our report thereon dated April 16, 1999. Our report was qualified due to the nature of the university's records regarding cash receipts and the Restricted Fund accounts receivable and related operations. We conducted our audit in accordance with generally accepted auditing standards.

We have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the general purpose financial statements disclosed the following immaterial instance of noncompliance with state laws and regulations. Our finding and recommendation and your response are as follows:

Finding

During our examination of fiscal year 1997 expenditures, we noted that 21.67% of the transactions examined were in violation of the Mississippi timely payments law Section 31-7-305, Miss. Code Ann. (1972). This code states that state agencies have 45 days from the latter of the date the invoice or goods were received to make their payment to the vendor unless the payment is in dispute. The exceptions noted exceeded the 45-day limit.

Recommendation

The university should ensure that vendor payments are made within 45 days of the invoice date.

Institution's Response

The university will comply with the auditor's recommendation. If a payment cannot be made within forty-five (45) days, supporting documentation will be available justifying that there was a dispute with the vendor.

The Office of the State Auditor will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

This report is intended for the use of Alcorn State University. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT
State Auditor



RAMONA HILL, CPA
Director, Financial and Compliance Audit Division

ALCORN STATE UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ALCORN STATE UNIVERSITY

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ALCORN STATE UNIVERSITY

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1997

Section 1: Summary of Auditor's Results

1. A qualified opinion was issued on the general purpose financial statements.
2. As described in Section 2 of this schedule, reportable conditions in internal control were disclosed by the audit of the general purpose financial statements. The reportable conditions described in Findings 97-1, 97-2 and 97-3 are considered to be material weaknesses.
3. The audit did not disclose any noncompliance which is material to the general purpose financial statements.
4. As described in Section 3 of this schedule, reportable conditions in internal control over major programs were disclosed by the audit. The reportable conditions described in Findings 97-16, 97-17 and 97-20 are considered to be material weaknesses.
5. A qualified opinion was issued on compliance for major programs.
6. The audit disclosed audit findings which are required to be reported under Section ____ .510(a) of OMB Circular A-133. These findings are described in Section 3 of this schedule.
7. The major programs were the following:
 - a. Research and Development Cluster (multiple CFDA #s included): See Schedule of Federal Financial Assistance for listing.
 - b. Student Financial Aid Cluster (multiple CFDA #s included): See Schedule of Federal Financial Assistance for listing.
 - c. Cooperative Extension - Food and Agricultural Act - CFDA #10.500.
 - d. Title III - Strengthening Historically Black Colleges and Universities - CFDA #84.031.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$439,870.
9. The auditee did not qualify as a low-risk auditee.

Section 2: Findings Relating to the Financial Statements

97-1. Finding

Bank reconciliations performed at June 30, 1997 did not reflect correct balances and did not agree with totals in the general ledger. This was caused by several contributing factors:

- a. Timeliness of reconciliation - Bank reconciliations were several months late being performed.

ALCORN STATE UNIVERSITY

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1997

- b. Not all deposits per the bank statements were reconciled to receipts shown as posted to the general ledger. This led to large unreconcilable amounts being accumulated and shown as over or under deposits on the bank reconciliation. Unrecorded deposits of approximately \$3.1 million were discovered during test work of cash and other deposits.
- c. Checks voided on the university's books were continuing to be carried on the bank reconciliations as outstanding items.
- d. General ledger cash accounts were utilized, in great part, as clearing accounts to record payroll and accounts receivable transactions. This practice cluttered the general ledger cash accounts to the point where incorrect cash-related entries could not be detected.

Recommendation

Bank reconciliations should be prepared within 30 days after the applicable month-end. Monthly reconciliations should be made between bank deposits and deposits reflected on the bursar's daily reports. No bank reconciliation should be completed until all deposits have been accounted for either as a deposit made per bank or a deposit in transit. Transmittal documents should be used to ensure that the bank account reconciler is notified when a check is voided. Clearing accounts should be established to record payroll and accounts receivable transactions. This will reduce the number of entries recorded in the general ledger cash and, as a result, make detail reports more usable. No month should be closed until all bank reconciliations have been completed and accounting personnel have determined that general ledger cash balances agree with the bank reconciliation.

97-2. Finding

Poor accounting control procedures existed during fiscal year 1997 relating to the receipting and recording of funds. Weaknesses were caused by the following:

- a. Daily cash reports which listed receipts posted to the general ledger and deposits sent to the bank were not consistently prepared.
- b. Poor communication existed between the bursar and the bank account reconciler to ensure that all deposits were made at the bank.

Recommendation

The bursar should prepare cash receipt/bank deposit reports on a daily basis. These reports would reflect amounts collected and deposited for each day. These reports should then be properly reviewed by management and delivered to the bank account reconciler for his reconciliation to the daily bank statements received from each depository.

ALCORN STATE UNIVERSITY

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1997

97-3. Finding

During fiscal years 1996 and 1997, the university fell far behind in the drawing down of federal funds to reimburse its various grant programs. As a result, funds were borrowed from other Current Funds to cover these restricted projects. Per our analysis, the institution failed to draw down a minimum of approximately \$3.1 million in reimbursements that it was entitled to for those periods. An audit adjustment was made at June 30, 1997 to record a receivable for these federal funds. The university has received these funds as of the date of the audit report. An additional \$3 million of undrawn funds is currently being researched by other auditors to determine how much, if any, the university is entitled to request for reimbursement.

Recommendation

The university should continue to follow up on the potential remaining grant funds not drawn down as of the date of this report. All of the funds drawn down need to go back to the other Current Funds to the extent of their past borrowings. The grants department should strengthen draw down procedures to ensure that federal reimbursements are requested in a timely manner.

97-4. Finding

During our evaluation of the university's accrued leave internal controls system, we noted the following weaknesses:

- a. There was an ineffective system of reconciliation between the Applications for Leave forms and Monthly Leave Summary reports. More than 30% of the employee leave records examined overstated year-end leave amounts due to the fact the Applications for Leave forms were not always charged to the employees' Monthly Leave Summary reports. The breakdowns appear to be at the department level. It appears that not all department heads are performing the monthly reconciliations between these two reports.
- b. "Application for Leave" forms were missing from several personnel department employee's leave files. This indicates that either department heads were not submitting these applications to the personnel department or were not consistently requiring employees to file the application upon each absence from campus as required by university policy.

Recommendation

The university should evaluate controls over its accrued leave accounting system. Department heads should be required to reconcile the two aforementioned reports before they submit them to the personnel department for further processing. In addition, all employees should be required to fill out the "Application for Leave" form for each instance they are away from campus per university policy.

ALCORN STATE UNIVERSITY

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97-5. Finding

The university's property control accounting system is being circumvented by shipping companies delivering equipment to various departments/locations on campus. In addition, equipment intended for the Natchez branch is generally shipped directly. This treatment circumvents controls intending to ensure that all equipment is checked and properly tagged by the property control officer. Under current procedures, equipment is sometimes on campus for extended periods of time without being tagged or properly accounted for by the property control office.

Recommendation

All equipment and merchandise should be delivered to the central receiving office on the Lorman campus. The property control officer would then have complete access to the physical inspection, tagging and accounting for each piece of equipment. The equipment then could be distributed to the appropriate campus departments. A second receiving location with proper property control office representation could be operated at the Natchez campus if so desired.

97-6. Finding

During our evaluation of the university's cash disbursements accounting system, we noted the following weaknesses:

- a. Object coding errors were fairly common during fiscal year 1997, effecting the proper presentation of expenditures. More than 11% of our transactions examined had object coding errors.
- b. More than 6% of the transactions examined were obligated with vendors before the purchasing documents were processed.
- c. The university did not charge individual departments for their special dining hall charges incurred during the year. These charges were incorrectly presented as dining hall expenditures in the Auxiliary Fund.

Recommendation

The university should strengthen its internal controls in these areas. All expenditures should be coded in accordance with the university's chart of accounts. No transaction should be obligated with a vendor without first having all of the applicable purchasing documents properly completed and approved. In addition, special dining hall charges, as well as all other interdepartmental charges, should be charged to the appropriate departmental budgets.

97-7. Finding

During fiscal year 1997, most of the university's journal vouchers were not reviewed by a supervisor before being entered into the computer system. Staff accountants were responsible for the creation, approval and processing of these documents.

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Recommendation

All journal voucher documents should be reviewed by a supervisor before being processed into the computer system. This added level of review would increase the university's ability to detect and correct any errors made during the creation process.

97-8. Finding

During our evaluation of the university's payroll accounting system, we noted the following weaknesses:

- a. Payroll check release sheets were not consistently prepared by all departments. These sheets document the receipt of pay checks by all employees.
- b. The filing system for supplemental pay (overtime and athletic events) time sheets was incomplete and unorganized. Time sheets for several activities were missing.

Recommendation

Each department should be required to submit a properly completed check release sheet to the business office. In addition, a properly approved time sheet should be on file for each case of supplemental pay.

97-9. Finding

During our evaluation of the university's Small Farm Development Loan Program at June 30, 1997, the following weaknesses were noted:

- a. No reconciliation between the general ledger and detailed subsidiary loan records was performed.
- b. Several loan files contained unsigned borrower notes or agreements.
- c. Copies of cash receipts made from borrower payments were not consistently placed in the loan files.
- d. Amended payment schedules (where applicable) were not placed in the loan files.
- e. Most borrowers did not appear to be on schedule with their payback plan.
- f. Many grant recipients did not appear to be submitting required progress reports.

Recommendation

Documentation procedures should be strengthened to ensure all required documents are placed within each loan file. Periodic reconciliations between the general ledger accounts and the detailed subsidiary records should be performed. More emphasis should be placed on ensuring that borrowers are making payments based upon their agreed-upon payback schedules.

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97-10. Finding

The university does not have a subsidiary valuation report for its library books and films fixed asset inventory.

Recommendation

The university should take necessary steps to develop a subsidiary report of its library books and films inventory. The total asset value from this report should be reconciled to the general ledger value at year-end.

97-11. Finding

Employee travel advances were not being settled timely during fiscal year 1997. Per university policy, employees have two weeks to settle their travel advances after travel has been completed. Our examination revealed very little settlement activity on 1997 advances. Although our test work indicated that most of these advances were expended properly, it was difficult to determine if all amounts owed back to the university were returned by the traveler.

Recommendation

The university should thoroughly evaluate the advances outstanding as of June 30, 1997. These advances should be settled and cleared out to the appropriate department expenditure accounts. Any amounts owed to the university should be collected from the appropriate employee.

97-12. Finding

The university's year-end accrual process for vendor payables was ineffective at June 30, 1997. Transactions that should have been recorded as fiscal year 1998 expenditures were incorrectly accrued as payables for fiscal year 1997. Approximately 15% of the vendor payable transactions examined were 1998 transactions.

Recommendation

The university should review its year-end accrual methods. Vendor payables should only be accrued if either of the following criteria are met: (a) invoice is dated or received on or before year-end cut-off, or (b) goods are received or services performed at or before year-end.

97-13. Finding

The key deposit and breakage fee deposit liability accounts at June 30, 1997 were not supported by a detailed subsidiary roster. These accounts consist of deposits made by students at the beginning of their enrollment and are maintained on account by the school to cover the replacement costs for lost keys and/or damaged dormitory items. Our audit of these accounts noted material overstatements at year-end. Audit adjustments were made to restate these liabilities.

Recommendation

The university should develop a detailed roster for these two accounts. As students enroll and pay their dormitory deposits, this roster should be properly maintained.

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97-14. Finding

The university's disaster recovery plan has not been tested for effectiveness.

Recommendation

A test plan must be developed prior to actual testing of the disaster recovery plan. This disaster recovery plan should be tested at least once a year, and the documentation should be updated periodically detailing an appropriate plan of action.

Section 3: Findings and Questioned Costs for Federal Awards

97-15. Finding

Program: Research and Development Cluster, Title III and Cooperative Extension

Compliance Requirements: a) Activities Allowed/Unallowed
 b) Allowable Costs/Cost Principles
 c) Period of Availability of Funds

During fiscal year 1997, procedures were not in place to document written approval for federal encumbrances before further processing and payment was performed. This failure increases the risk that federal expenditures could be made which are not in compliance with grant requirements.

Recommendation

Written approvals should be obtained from the department head responsible for the grant certifying that the encumbrance is allowable per specific project criteria and OMB Circular A-21 federal guidelines. In addition, written approvals should certify that the period of availability of funds compliance requirement is met (i.e., the encumbrance falls within the beginning and ending dates of the project) and that the encumbrance represents an allowable activity based upon the grant requirements.

97-16. Finding

Program: Research and Development Cluster, Student Financial Aid Cluster, Title III and Cooperative Extension

Compliance Requirement: Cash Management

During fiscal year 1997, the university's federal drawdown procedures included several potential material weaknesses, including after-the-fact supervisory reviews and the use of unsound historical estimates in computing drawdown calculations. The use of these estimates predominately covered long periods of activity (usually 10 months) and were not based upon current data. Although no instances of drawdowns of excess cash were discovered, the lack of adequate control procedures in this area increases the likelihood that material errors could occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions.

Questioned Costs: None

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Recommendation

The university should strengthen its drawdown procedures to avoid future excess cash violations. While the use of estimates is allowable, these estimates should be based upon sound historical data and cover short periods of time. In addition, a supervisory review should be performed before the drawdown is entered into the federal payment system.

97-17. Finding

Program: Research and Development Cluster, Student Financial Aid Cluster, Title III and Cooperative Extension

Compliance Requirement: Reporting

During fiscal year 1997, the university's federal report tracking system procedures were not effective. This tracking system, when functioning properly, is intended to inform the grants director when necessary federal financial reports are required to be prepared and submitted. Our examination revealed that the institution is substantially in arrears in its submission of the following reports. As of the date of this report, these reports were either not prepared or could not be located for review.

- a. Department of Agriculture - quarterly 272 Federal Cash Transaction Reports for the periods ending 6-30-97; 9-30-97; 12-31-97; and 3-31-98.
- b. Department of Health & Human Services - quarterly 272 Federal Cash Transaction Reports for the periods ending 6-30-97; 9-30-97; 12-31-97; and 3-31-98.
- c. Department of Agriculture - annual Agricultural and Forestry Extension Work Report (ES Form 2A) for the period ending 9-30-97.

Questioned Costs: None

Recommendation

The university should develop an effective tracking system for federal reporting. This system should keep track of all required financial and technical reports as outlined in federal OMB Circular A-110 and/or specific project agreements. Submission due dates and necessary report content should also be summarized in this tracking system. In addition, the university should prepare and submit the missing reports listed above.

97-18. Finding

Program: Research and Development Cluster, Title III and Cooperative Extension

Compliance Requirements: a) Activities Allowed or Unallowed,
b) Allowable Costs/Cost Principles

Approximately 9.2% of the sampled monthly time and effort payroll certification forms could not be located. These were either never prepared or had been misplaced. These cases involved summer (or temporary) assignments to federal projects. Per OMB A-110, these certifications must be filed periodically for all federally paid personnel.

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Recommendation

The university should strengthen its file maintenance procedures in the area of time and effort payroll certification forms. A complete certification should be on file for each federally paid employee. This would include all monthly, bi-weekly and temporary employees.

97-19. Finding

Program: Student Financial Aid Cluster

Compliance Requirement: Special Tests and Provisions

During fiscal year 1997, the university did not comply with Title IV financial aid refund requirements outlined in the Federal Student Financial Aid Handbook. The university only calculated one type of refund: the institutional refund. They did not calculate a federal refund or pro rata refunds. Hence, there was no basis for comparison between the two refund types to determine which one calculated the greatest refund amount in accordance with Title IV refund regulations. In addition, the university's refund practices did not produce timely cancellations of Title IV aid, nor was the required refund distribution formula followed.

Recommendation

The university should implement proper Title IV financial aid refund procedures in accordance with Title IV student refund regulations.

97-20. Finding

Program: Research and Development Cluster, Student Financial Aid Cluster, Title III and Cooperative Extension

Compliance Requirement: Reporting

During fiscal year 1997, the university's reconciliation process for many of its federal reports (i.e., reconciliation back to the general ledger and/or underlying support) was ineffective. Our examination revealed numerous unidentified reconciliation differences. Examples of types of reports involved included the following:

- a. Periodic 272 Federal Cash Transaction Reports
- b. Annual 269 Federal Financial Status Reports
- c. Annual Fiscal Operation Report (FISAP - ED form 646-1)
- d. PELL Payment Summary (ED form 255-4)

Some of these reports were subsequently revised, but many still remain inaccurate as of the date of this report.

Questioned Costs: None

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Recommendation

The institution should implement federal reporting control procedures which include accurate and timely reconciliations between the reports and the general ledger and/or the specific underlying support. These reconciliations should be documented and included in the appropriate file with the federal report.