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**FINANCIAL STATEMENTS OF SELECTED FUNDS
OF THE
STATE OF MISSISSIPPI
DEPARTMENT OF EDUCATION
June 30, 2016**

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INDEPENDENT AUDITORS' REPORT

Carey M. Wright, Ed.D.
State Superintendent of Education
Mississippi Department of Education
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the selected funds 5320100000 and 442300000 of the Mississippi Department of Education (MDE), as of and for the year ended June 30, 2016, and the related notes to the financial statements. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report (CAFR).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of funds 5320100000 and 4423000000 of MDE as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of funds 5320100000 and 4423000000 of MDE present only the financial position and changes in financial position of that portion of the governmental activities of the selected funds of MDE and the State of Mississippi that is attributable to the transactions of funds 5320100000 and 4423000000. They do not purport to, and do not, present fairly the financial position of MDE or the State of Mississippi as of June 30, 2016, or the changes in financial position of each entity for the year then ended on conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matter

Management has omitted the Management Discussion and Analysis and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2017, on our consideration of MDE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDE's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
April 21, 2017

FINANCIAL STATEMENTS

**STATE OF MISSISSIPPI
DEPARTMENT OF EDUCATION
SELECTED FUNDS
BALANCE SHEETS
June 30, 2016**

	Fund <u>5320100000</u>	Fund <u>4423000000</u>
Assets:		
Cash	\$ 200	\$ -
Equity in State Treasury Funds	-	103,782
Accounts Recievable	3,729	-
Due From Federal Government	32,375,506	-
Due From General Fund	7,543,663	
Due From Other State Funds	-	19,889,313
	<hr/>	<hr/>
Total Assets	<u><u>\$ 39,923,098</u></u>	<u><u>\$ 19,993,095</u></u>
 Liabilities and Fund Balances:		
Equity in State Treasury Funds		
Overdraft	\$ 4,490,069	\$ -
Accounts payable	6,572,754	581,781
Warrants Payable	2,709,288	-
Due To Other Governments	21,998,311	-
Due to Federal Government	7,543,663	-
Due To Other State Funds	469,803	19,389,948
Unearned revenue	2,118,089	-
	<hr/>	<hr/>
Total Liabilities	<u>45,901,977</u>	<u>19,971,729</u>
 Fund Balances:		
Restricted	-	21,366
Unassigned	(5,978,879)	-
	<hr/>	<hr/>
Total Liabilities and Fund Balance	<u><u>\$ 39,923,098</u></u>	<u><u>\$ 19,993,095</u></u>

**STATE OF MISSISSIPPI
DEPARTMENT OF EDUCATION
SELECTED FUNDS
STATEMENTS OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2016**

	Fund 5320100000	Fund 442300000
Revenues:		
Federal grant	\$ 686,047,441	\$ -
Other income	2,131,800	-
Total Revenues	688,179,241	-
Expenditures:		
Subsidies	649,212,413	-
Subsidies - Adequate Education Funds	-	212,272,083
Salaries and Benefits	7,561,385	-
Travel	757,151	-
Contractual Services	13,643,179	-
Commodities	18,958,402	-
Other	4,136,855	-
Total Expenditures	694,269,385	212,272,083
Deficiency of Revenues Under Expenditures:	(6,090,144)	(212,272,083)
Other Financing Sources (Uses):		
Transfers in	1,125,447	229,875,253
Transfers (out)	(2,725,256)	(178,142)
Total Financing Sources (Uses)	(1,599,809)	229,697,111
Total Expenditures and Financing Sources (Uses)	(7,689,953)	17,425,028
Net Change in Fund Balances	(7,689,953)	17,425,028
Fund Balances, Beginning of Year	1,711,074	(17,403,662)
Fund Balances, End of Year	\$ (5,978,879)	\$ 21,366

**STATE OF MISSISSIPPI
DEPARTMENT OF EDUCATION
SELECTED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background Information

Mississippi Department of Education (MDE) is a state department of the State of Mississippi. MDE provides resources and technical support to Mississippi's public school system. A nine-member board is appointed in accordance with Mississippi's constitution, which governs MDE. The Mississippi Board of Education is responsible for appointing the State Superintendent of Education, establishing public education policy and governing MDE.

MDE is the administrative arm of the Board and functions as a resource for federal education requirements and funding. MDE is responsible for implementing state and federal education laws, disbursing state and federal funds, holding schools and districts accountable for performance and licensing all educators.

Financial Reporting Entity

MDE is reported as a state agency in the State of Mississippi's Comprehensive Annual Financial Report. The selected governmental funds presented in these financial statements are part of the larger entity that in whole comprises the financial reporting entity of the Mississippi Department of Education. The selected funds are used to fund administrative and operating costs of federal and state educational programs for the 148 local school districts.

Basis of Presentation

The accompanying fund financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

Cash and Cash Equivalents

Cash and cash equivalents are defined by MDE as demand deposit accounts and equity in State Treasury Funds. Equity in State Treasury Funds consists of pooled cash held by the Treasurer of the State of Mississippi.

Accounts Receivable

Accounts receivable consist of amounts due from the Federal or State government in which the revenue was earned but not received by June 30, 2016. Accounts receivable is reported net of allowances for uncollectible accounts, where applicable. No allowance for uncollectible accounts was recorded at June 30, 2016.

Account Classifications

The account classifications used in the financial statements conform to the board classifications recommended in *Governmental Accounting, Auditing and Financial Reporting*, as issued by the Government Finance Officers Association.

**STATE OF MISSISSIPPI
DEPARTMENT OF EDUCATION
SELECTED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2016**

Fund Accounting

The financial activities of the funds audited are recorded in individual funds and account groups used to report financial position and changes in financial position. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Basis of Accounting/Measurement Focus

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are considered to be available when they are both measurable and available to finance expenditures of the current period. Management considers revenue to be available if collected within 60 days. Expenditures are recorded when a liability is incurred, except for accumulated sick and vacation pay which are recorded when paid.

Use of Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires MDE to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and other changes in fund balances during the period. Actual results could differ from those estimates.

Revenue Recognition

Grant revenue is recognized when the related and allowable liability is paid. Other revenues in the funds are generally recognized when the revenue is received or appropriated by the State of Mississippi Legislature.

Unearned Revenue

Unearned revenue represents grant revenue received prior to all eligibility requirements being met. Unearned revenue is reported as a liability until the eligibility requirements are met.

Interfund transfers

In the selected governmental funds financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures of the disbursing fund. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing funds and as a reduction of expenditures in the reimbursed fund.

**STATE OF MISSISSIPPI
DEPARTMENT OF EDUCATION
SELECTED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2016**

As of June 30, 2016, Fund transfers consisted of:

Fund 5320100000

Description	Transfers In	Transfers Out
Indirect Costs	\$ 1,125,447	-
Allocate indirect costs to federal grants	-	\$ 1,125,447
Other Government -		
Child Nutrition Funds to Other State Agencies	-	671,628
Other Funds-		
School for the Blind, School for the Deaf and Art School	-	821,649
2015 GAAP Accrual Entries	-	78,208
Nonbudgeted subgrantee payment-		
IDEA and Title Programs subgrantee Programs	-	28,324
Total	<u>\$ 1,125,447</u>	<u>\$ 2,725,256</u>

Fund 4423000000

Description	Transfers In	Transfers Out
Mississippi Adequate Education Program (MAEP)	\$ 229,875,253	-
Transfer excess FY 15 program revenue	-	\$ 178,143
Total	<u>\$ 229,875,253</u>	<u>\$ 178,143</u>

Fund Balances – Governmental Funds

MDE presents defined fund balance categories to demonstrate the nature and extent of the constraint placed on the selected funds' fund balances. The classifications used in the selected governmental funds financial statements are based on the following methodology:

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications. The unassigned classification is also used to report a deficit balance resulting from overspending for specific purposes for which amount had been restricted, committed or assigned.

Nonspendable – This classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted – This classification includes amounts that may only be spent for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – This classification includes amounts that can be used only for the specific purposes determined by enabling legislations by the State legislature.

**STATE OF MISSISSIPPI
DEPARTMENT OF EDUCATION
SELECTED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2016**

MDE considers restricted amounts to have been spent when the expenditure is incurred for purposes determined for which both restricted and unrestricted fund balances are available.

NOTE 2 – Cash and Other Deposits

Custodial risk is the risk that in the event of bank failure, a government's deposits may not be returned. MDEs' deposit policy for protection of custodial risk is handled under a statewide collateral program. The collateral for public entities' deposits in financial institutions is held by the depository bank in the name of the State Treasurer under a program established by the State of Mississippi Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entities' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

NOTE 3 –Due From and Due To Other Governments

At June 30, 2016, due from and due to other governments balances consisted of:

Due from other state funds for fund 4423000000, the amount of \$19,889,313, represents the annual transfer from MDE's Mississippi Adequate Education Program (MAEP) to support administrative and operating costs of the local school districts.

<u>Fund 5320100000</u>	<u>Due From</u>
U.S. Department of Education	\$ 21,658,077
U.S. Department of Agriculture	10,628,190
U.S. Department of Health and Human Services	89,239
Total	<u><u>\$ 32,375,506</u></u>

All amounts due to MDE are expected to be collected in fiscal year 2017.

Due to other governments for fund 4423000000, in the amount of \$19,389,948, represents reimbursement requests from the local school districts.

**STATE OF MISSISSIPPI
DEPARTMENT OF EDUCATION
SELECTED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2016**

<u>Fund 5320100000</u>	<u>Due To</u>
Due to Federal Government - see note 4	<u><u>\$ 7,543,663</u></u>
Due to Other Governments	<u><u>\$ 21,998,311</u></u>
Due to Other State Funds	<u><u>\$ 469,803</u></u>

Amounts due to other governments and other state funds represent reimbursement requests of federal program costs paid by the school's districts and state agencies.

NOTE 4 – Contingency and Commitments

Federal Grants

MDE receives federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreement and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance of program uses of funds may be a liability of MDE's.

MDE charged 21st Century Community Learning (21st Century) program costs to the Title I, Part A (Title I) program for three months beginning April 2016 to June 2016. As a result, unallowed Title I program costs in the amount of \$7,543,663 were drawn from the U.S. Department of Education. MDE is required to reimburse the Title I program using MDE's general funds.

Litigation

MDE is party to various legal proceedings that arise in the normal course of governmental operations. If an unfavorable outcome of the litigation is determined to be likely and probable, MDE will record a liability to reflect the estimated outcome of the litigation.

NOTE 5 – Subsequent Events

In conjunction with Note 4 – Contingency and Commitments, MDE charged \$3,952,146 to the Title I program for 21st Century program costs in July 2016. MDE repaid the \$3,952,146 to the Title I program during the fiscal year.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Carey M. Wright, Ed.D.
State Superintendent of Education and
Mississippi Board of Education
Jackson, Mississippi

We have audited, in accordance with the 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 financial statements of funds 5320100000 and 442300000 of the Mississippi Department of Education (MDE), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated April 21, 2017, which was unmodified for the selected funds. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report (CAFR).

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MDE'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDE's internal control. Accordingly, we do not express an opinion on the effectiveness of MDE'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 MDE'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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-035, 2016-036, 2016-037 and 2016-045 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MDE's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2016-035.

MDE's Response to Findings

MDE's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. MDE's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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 MDE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Baltimore, Maryland
April 21, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

INTERNAL CONTROL OVER FINANCIAL REPORTING – FUND 5320100000

Material Weakness

2016-035 Management overrode internal controls and procedures and charged unallowed costs to the Title I program.

CFDA Number N/A
Federal Award N/A
Federal Agency N/A
Pass-through Entity N/A
Questioned Costs N/A

Criteria Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. MDE must establish and maintain effective internal control over financial reporting to provide reasonable assurance that financial reports are accurate and supported.

Condition The former Director of Fiscal Management in the Office of Federal Programs (OFP) instructed the school payment supervisor in the Office of Accounting to override procedures and record 21st Century Community Learning Center (21st Century program) expenditures to the Title I, Part A funds (Title I).

As required by MDE's procedures, the Office of Accounting notified the former Director of Fiscal Management that the 21st Century grant did not have available funds to process subrecipients' reimbursement requests. The former Director of Fiscal Management sent an email to the Office of Accounting and instructed the staff to charge the expenditures to the Title I program; which were subsequently drawn from the U.S. Department of Education (USDE) as Title I program costs. The Director of the Office of Accounting and the former Executive Director of the OFP received the email from the former Director of Fiscal Management instructing the Office of Accounting staff to charge the costs to Title I. The Chief Operations Officer was not notified of the 21st Century shortage of available funds or the decision to charge the Title I program for 21st Century expenditures. As a result of the misused funds, MDE terminated the OFP Director of Fiscal Management, the Executive Director of the Office of Federal Programs, and the 21st Century Program Coordinator.

MDE charged 21st Century program expenditures to the Title I program for three months beginning April 2016 to June 2016. MDE contacted USDE immediately upon identification that the unallowed process had occurred, and is currently in communication with the grantor regarding resolution and any other grantor requirements in response to the misused funds. MDE drew approximately, \$7.6 million from USDE for the unallowed Title I costs, which will be repaid using MDE's general fund.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

Cause	<p>The former Director of Fiscal Management in OFP overrode MDE's accounting procedures in order to cover a shortfall of available funds for the 21st Century program. MDE's procedures and internal controls were inadequate to prevent and/or detect the override; as timely reconciliation of 21st Century and Title I's expenditures, cash receipts and available funding may have disclosed the override in a timely manner.</p>
Effect	<p>As a result, MDE misused approximately, \$3.9 million of Title I program funds in July 2016 (subsequent fiscal year). The funds were repaid during FY 17 by transferring 21st Century funds to the Title I program.</p> <p>MDE charged unallowed program expenditures to the Title I and incorrectly drew the funds from USDE. Current procedures did not prevent or detect the misuse of federal funds in a timely manner. MDE is required to reimburse the Title I program using general funds.</p>
Recommendation	<p>MDE should review and enhance current procedures to avoid a reoccurrence. The procedural updates should (at a minimum) provide a protocol for the Office of Accounting in regards to making changes to approved payment requests (MAGIC internal order, payee, dollar amount, etc.). If a change is requested, the Office of Accounting should not process the request until a changes have been approved by the designated parties. The Department should make the proper changes, obtain approvals and resubmit to the Office of Accounting. If the Office of Accounting is unable to process the request due to unavailable program funds, the resubmitted request should be (at a minimum) reviewed and approved by the Director of the Office of Accounting, the Chief Operations Officer, the Program Chief and the applicable program Executive Director.</p> <p>MDE should require federally supported programs to reconcile expenditures, cash receipt and available funds on a monthly basis (no later than quarterly) to identify errors and potential financial concerns in a timely manner. Evidence of the review and conclusions reached should be documented and readily available.</p>
Repeat Finding	No
Statistically Valid	N/A
Views of responsible officials	See additional comments in the Corrective Action Plan in this audit report.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

INTERNAL CONTROL OVER FINANCIAL REPORTING – FUND 5320100000

Material Weakness

2016-036 The Office of Accounting internal controls and procedures over review and reconciling MDE's general ledger account did not detect materially misstated account balances.

CFDA Number	N/A
Federal Award	N/A
Federal Agency	N/A
Pass-through Entity	N/A
Questioned Costs	N/A

Criteria Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. MDE must establish and maintain effective internal control over financial reporting to provide reasonable assurance that financial reports are accurate and supported.

Condition The GAAP package for fund 5320100000 prepared by the Office of Accounting and submitted to the Department of Finance and Administration (DFA) was materially misstated; which has not detected by the Office of Accounting. The year-end account balance for cash, due from federal government, accounts payable, and due to other state governments were materially misstated.

The Office of Accounting prepared the GAAP package based on financial information reported in the statewide general ledger (Mississippi Accountability System for Government Information and Collaboration (MAGIC)). However, the account detail contained material errors such as cleared due from federal government and accounts payable transactions, double counted expenditures and incorrect cash balances. The Office of Accounting did not notify DFA or the auditors of the errors. Furthermore, MDE's review, approval and maintenance of documentation for year-end accruals posted by DFA were not evident and/or readily available.

Cause The Office of Accounting does not have procedures for reviewing and reconciling the Department's general ledger and account detail for the selected funds throughout the year or at year-end.

Effect The account balance for grants receivable (due from federal government) was overstated by \$35,278,955, which was received and processed by the State Treasurer and DFA in March 2016. The cash receipt was posted to the incorrect fund; therefore, fund 5320100000 receivable and cash account balances were incorrect.

The accounts payable balance was overstated by \$1,674,754 due to outstanding vendor payments that were cleared prior to June 30, 2016 but were not removed from the account detail.

The account balance for due to other government was overstated by

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

\$36,828,134 because the year-end accrual for FY 2015 was not reversed at the beginning of FY 2016. Therefore, the related fund expenditures for FY 2015 were included in the FY 2016 expenditure total.

Recommendation MDE should develop and implement procedures for reviewing the general account balance detail for each fund. All transactions recorded by DFA should be reviewed, supported and agreed to by MDE. MDE should notify DFA of errors within the account detail. While DFA is responsible for posting year-end accruals and entity-wide journal entries for statewide reporting purposes, MDE's (and all state departments) general ledger account balances are the Department's responsibility.

Repeat Finding No

Statistically Valid N/A

Views of responsible officials See additional comments in the Corrective Action Plan in this audit report.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

INTERNAL CONTROL OVER FINANCIAL REPORTING – FUND 5320100000

Material Weakness

2016-037 Procedures over accounting for grants should be strengthened in order to accurately present grant activity and the related grants receivable and unearned revenue account balances.

CFDA Number	N/A
Federal Award	N/A
Federal Agency	N/A
Pass-through Entity	N/A
Questioned Costs	N/A

Criteria Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. MDE must establish and maintain effective internal control over financial reporting to provide reasonable assurance that financial reports are accurate and supported.

Condition The account balance detail for grants receivable (due from federal government) and unearned revenue was not supported by the activity of individual grant. The Office of Accounting maintains the grant schedule which is used to assist the Office of Accounting with determining the year-end grants receivable and related unearned revenue account balance. We selected grants receivable and unearned revenue transactions for testing and noted that the transactions may not reflect the year-end activity of the individual grant, but rather the activity of several grants within the specific federal program (Title I, Special Education Cluster, etc. Child Nutrition Cluster) or grants closed in prior years. The schedule is maintained based on grant activity in MAGIC.

For GAAP package reporting purposes, grants with excess cash receipts over expenditures were identified as unearned and grants with excess expenditures over cash receipts was identified as a receivable, which resulted in materially misstated grants receivable and unearned revenue account balances. In order to determine the grants receivable and unearned revenue balance, the total grant activity at the program level was used.

Grants receivable and unearned revenue should be calculated at the individual grant award level order to accurately determine the grants receivable and unearned grant revenue balances at year-end.

Cause DFA instructed MDE to report the grant activity separately for each grant. MDE did not update the grant schedule accordingly; therefore, the GAAP package presentation did not reflect the accurate account balance for due from federal government and unearned revenue.

Effect The accounts receivable and unearned revenue account balances were overstated by \$25,989,203.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

Recommendation	We recommend that MDE continue to report new and future grant activity by each grant, and retroactively update grant activity in order to accurately reflect the grants in MAGIC. Also, until DFA accurately reflects the individual grant activity in MAGIC, a grant schedule should accurately reflect the grant activity of each grant and be reconciled to MAGIC. This will provide support for the year-end adjustment and reporting of the grants receivable and unearned revenue account balance.
Repeat Finding	No
Statistically Valid	N/A
Views of responsible officials	See additional comments in the Corrective Action Plan in this audit report.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

INTERNAL CONTROL OVER FINANCIAL REPORTING – FUND 5320100000 and 4423000000
Material Weakness

2016-045 MDE was not adequately prepared for the financial audit which resulted in untimely delays in the issuance of the financial statements of funds 5320100000 and 4423000000.

CFDA Number	N/A
Federal Award	N/A
Federal Agency	N/A
Pass-through Entity	N/A
Questioned Costs	N/A

Criteria Section 27-104-4, Miss. Code Ann. (1972) requires each state agency to prepare annual financial statements at such times as determined by the State Fiscal Officer. The State Fiscal Officer is required to combine the financial statements into a comprehensive annual financial report (CAFR) and provide it to the State Auditor for post-auditing. The law further requires the CAFR be published within six months after the June 30 close of the fiscal year.

Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. MDE must establish and maintain effective internal control over financial reporting to provide reasonable assurance that financial reports are accurate and supported.

Condition The Office of Accounting was not prepared for the audit on the agreed upon date between the external auditors and MDE. The original issuance date of the fund financial statements was December 31, 2016. MDE did not meet this deadline.

In addition, the Office of Accounting was responsible for delays during the audit process. As a result, the financial statements were not issued until March 2017.

Cause The Director of the Office of Accounting was the designated audit liaison for the Office of Accounting and did not delegate the responsibility to a staff who could dedicate more time and resources to assisting the auditors. Also, due to the Office of Accounting's lack of review and reconciliation of MAGIC account balances, responses to auditor inquiries were not readily available.

The first day of fieldwork was October 17, 2016. The final trial balance for fund 5320100000 was provided October 27, 2016. Based on our review of the trial balance and account detail we provided the Office of Accounting a documentation request list. On November 16, 2016, the Director of Accounting received a detailed list of all outstanding items. Follow up requests were performed on November 28, 2016 and December 12, 2016. Receipt of documentation was delayed until January 3, 2017. MDE's response to the auditor's follow up questions and requests was prolonged as well.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

Additionally, inadequate responses to the auditor inquiries caused additional delays.

Effect The financial audits for funds 5320100000 and 4423000000 were not completed by intended deadline, which affected the completion of the State's CAFR.

Recommendation We recommend MDE review its policies and procedures over the timing of the year end close out process. Part of these procedures should include the preparation of documentation needed to complete the audit of the financial statements such as account reconciliations, variance fluctuation explanations, etc. We also recommend that MDE identify a member in Executive Leadership that would be responsible for overseeing the Office of Accounting regarding the office's preparation and response to audit inquiries to ensure that MDE met the deadline for filing annual financial statements.

Repeat Finding No

Statistically Valid N/A

Views of responsible officials See additional comments in the Corrective Action Plan in this audit report.

CORRECTIVE ACTION PLANS



MISSISSIPPI DEPARTMENT OF EDUCATION

Carey M. Wright, Ed.D.
State Superintendent of Education

March 28, 2017

Financial Statement Findings

Stacey E. Pickering, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. Pickering:

In accordance with your correspondence dated March 20, 2017, the Mississippi Department of Education (MDE) is providing the following response and corrective action plan for the financial audit findings for the fiscal year ending June 30, 2016.

AUDIT FINDINGS:

Internal Control over Financial Reporting

GAAP Package – Fund 5320100000

2016-035 Management overrode internal controls and procedures and charged unallowed costs to the Title I program.

Response: The MDE acknowledges that unallowed costs were charged to the Title I program, and steps are being implemented to prevent this from reoccurring.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

Upon discovery, the MDE immediately required that any recoding or adjustments for payments be approved by members of the Executive Leadership Team before

payments were finalized. In addition, MDE initialized a comprehensive review of current processes and procedures to ensure that this would not reoccur. The

procedures are being documented and will include approval levels up to and including the Chief of the respective bureau and the Chief Operations Officer. Currently, a form is being drafted to document the approvals at all levels to ensure that no adjustments or recoding occurs without final approval from the respective Chiefs. In addition, the agency has contracted with an outside Consultant to provide consultation services to revise and align MDE Policies and Procedures with the Mississippi Accountability System for Government Information and Collaboration (MAGIC). To ensure that the agency has a person on staff dedicated specifically to monitoring compliance, the Chief Operations Officer will be realigning the Operations department and designating someone on staff as a Compliance Manager.

B. Name of the contact person responsible for corrective action.

Felicia Gavin, Ph.D. – Chief Operations Officer

C. Anticipated completion date for corrective action.

June 30, 2017

Internal Control over Financial Reporting

GAAP Package – Fund 5320100000

2016-036 Internal controls and procedures over review and approval of adjustment posted by the Department of Finance and Administration (DFA) and the Mississippi Department of Education's (MDE) account activity and ending account balances should be implemented.

Response: The MDE does review and approve adjustments posted by DFA. These approvals are noted within the GAAP packages submitted to DFA annually. Accounts Payable balances do still exist in MAGIC, and DFA has now implemented a procedure as of March 2017 whereby they will begin removing cleared payments from the system so that they do not populate on the trial balance. DFA was aware of this situation and has now implemented a procedure to address this issue.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

The MDE will exercise due diligence in the future to ensure a thorough and comprehensive review of all general ledger account balance detail is performed. This will also include a thorough review of all DFA recorded transactions to ensure that they are properly supported and agreed to by MDE. MDE will utilize the process established by DFA in March of 2017 to have the paid invoices removed from the system. As part of strengthening procedures and raising the

level of accountability, the Chief Operations Officer will be restructuring the accounting department to include more oversight.

B. Name of the contact person responsible for corrective action.

Felicia Gavin, Ph.D. – Chief Operations Officer

C. Anticipated completion date for corrective action.
June 30, 2017

Internal Control over Financial Reporting

GAAP Package – Fund 5320100000

2016-037 Procedures over accounting for grants should be strengthen in order to accurately present grant activity and the related accounts receivable and unearned revenue account balances.

Response: During the 2016 GAAP preparation, DFA instructed agencies to start recording all grants using the grant numbers which was after the year end in June 2016. The MDE has since modified its processes to record all grants on an individual basis.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

The MDE will continue to report new and future grant activity by each grant. A thorough review and reconciliation process is being developed to update all grant activity in MAGIC to accurately reflect the individual grant's activity. The agency is developing a Grants Management team that will meet quarterly to review grant activity and issues. As part of strengthening procedures and raising the level of accountability, the Chief Operations Officer will be restructuring the accounting department to include more oversight.

B. Name of the contact person responsible for corrective action.

Felicia Gavin, Ph.D. – Chief Operations Officer

C. Anticipated completion date for corrective action.

June 30, 2017

Internal Control over Financial Reporting

GAAP Package – Fund 5320100000 and 4423000000

2016-045 MDE was not adequately prepared for the financial audit which resulted in untimely delays in the issuance of the financial statements of funds 532010000 and 4423000000.

Response: The MDE recognizes that there were challenges in receiving information in a timely manner. The agency is making changes in policies and procedures to ensure that auditors receive information and responses to requests in a timely manner. However, Executive Leadership over the respective area would like to be informed when information is not received in a timely manner. We will designate a contact person at the agency to ensure that the Executive Leadership is informed of any issues with timely receipt of information or of any other issues that arise during the audit.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

Procedures will be updated to ensure that account reconciliations and variance reports are completed. When preparing for audits, deadlines will be given to staff to provide requested documents. As part of strengthening procedures and raising the level of accountability, the Chief Operations Officer will be restructuring the accounting department to include more oversight. To ensure that the agency has a person on staff dedicated specifically to monitoring compliance, the Chief Operations Officer will be realigning the Operations department and designating someone on staff as a Compliance Manager.

B. Name of the contact person responsible for corrective action.

Felicia Gavin, Ph.D. – Chief Operations Officer

C. Anticipated completion date for corrective action.

July 1, 2017

Sincerely,



Carey M. Wright, Ed.D.
State Superintendent of Education



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

**REPORTS ON FEDERAL PROGRAMS OF THE
MISSISSIPPI DEPARTMENT OF EDUCATION
SELECTED BY THE
OFFICE OF THE STATE AUDITOR
YEAR ENDED JUNE 30, 2016**

**FEDERAL PROGRAMS OF THE MISSISSIPPI DEPARTMENT OF EDUCATION
SELECTED BY THE OFFICE OF THE STATE AUDITOR
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INDEPENDENT AUDITORS' REPORT

Carey M. Wright, Ed.D.
State Superintendent of Education and
Mississippi State Board of Education
Jackson, Mississippi

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying Schedule of Expenditures of Federal Awards for programs selected by the Office of the State Auditor for those programs of the Mississippi Department of Education (MDE), for the year ended June 30, 2016, and the notes (the financial statement).

Management's Responsibility for the Schedule of Expenditures of Federal Awards Programs Selected for Audit.

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Carey M. Wright, Ed.D.
State Superintendent of Education and
Mississippi State Board of Education

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the expenditures of federal awards for the programs selected by the Office of the State Auditor of MDE for the year ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
April 21, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAMS SELECTED BY THE OFFICE OF THE STATE
AUDITOR AND REPORT ON INTERNAL CONTROLOVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Carey M. Wright, Ed.D.
State Superintendent of Education and
Mississippi State Board of Education
Jackson, Mississippi

**Report on Compliance for Each Major Federal Program
Selected by the Office of the State Auditor**

We have audited Mississippi Department of Education's (MDE) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the major federal program selected by the Office of the State Auditor for the year ended June 30, 2016. MDE's major federal programs, as selected by the Office of the State Auditor, are identified in the summary of auditors' results section of the accompany schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to the federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of MDE's major federal programs selected by the Office of the State Auditor based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 MDE's major federal programs selected by the Office of the State Auditor 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 on compliance for the MDE's major federal programs selected by the Office of the State Auditor. However, our audit does not provide a legal determination of MDE's major federal programs selected by the Office of the State Auditor compliance.

Basis for Qualified Opinion

As described in the accompanying schedule of findings and questioned costs, MDE major federal programs selected by the Office of the State Auditor did not comply with requirements regarding CFDA 84.010 - Title I allowable costs and activities as described in 2016-038 and CFDA 84.287 - 21st Century Community Learning Centers subrecipient monitoring as described in 2016-042. Compliance with such requirements is necessary, in our opinion, for MDE to comply with the requirements applicable to the programs.

Qualified Opinion on Title I

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, MDE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.010 - Title I for the year ended June 30, 2016.

Qualified Opinion on 21st Century Community Learning Centers

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, MDE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.287 - 21st Century Community Learning Centers for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, MDE major federal programs selected by the Office of the State Auditor, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompany schedule of findings and questioned costs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-039 and 2016-040. Our opinion on each major programs as selected by the Office of the State Auditor is not modified with respect to these matters.

MDE's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. MDE's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of the MDE 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 MDE's internal control over compliance with the types of requirements that could have a direct and material effect on the federal programs identified in Table 1 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the programs identified in Table 1 and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 MDE's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-038 and 2016-042 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-039, 2016-040 and 2016-041 to be significant deficiencies.

MDE's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. MDE's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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 result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Baltimore, Maryland
April 21, 2017

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR FEDERAL PROGRAMS SELECTED BY THE OFFICE
OF THE STATE AUDITOR
YEAR ENDED JUNE 30, 2016**

Federal Grantor, Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Sub-Recipient Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster			
USDA: Non-Cash Commodities	10.555	\$ 18,920,425	\$ 18,920,425
National School Lunch Program	10.555	175,123,638	175,123,638
School Breakfast	10.553	63,700,548	63,482,043
Special Milk Program	10.556	2,437	2,437
Summer Food Service Program	10.559	8,234,466	8,234,466
Total Child Nutrition Cluster		<u>265,981,514</u>	
Child and Adult Care Food Program	10.558	<u>44,373,432</u>	44,373,432
Total U.S. Department of Agriculture		<u>310,354,946</u>	
U.S. Department of Education			
Title - I Grants to Local Educational Agencies	84.010	170,234,039	170,234,039
Special Education Cluster (IDEA):			
Special Education - Grants to States (IDEA, Part B)	84.027	115,867,616	115,867,616
Special Education - Preschool Grants (IDEA Preschool)	84.173	4,088,553	4,088,553
Total Special Education Cluster		120,248,431	
Career and Technology Education	84.048	12,197,475	12,197,475
21st Century Community Learning	84.287	16,596,427	16,596,427
Improving Teacher Quality State Grants	84.367	31,942,352	31,942,352
Total U.S. Department of Education		<u>350,926,462</u>	
Total Federal Expenditures		<u>\$ 661,281,408</u>	

**MISSISSIPPI DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR FEDERAL PROGRAMS SELECTED BY
THE OFFICE OF THE STATE AUDITOR
YEAR ENDED JUNE 30, 2016**

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards for Federal Programs Selected by the Office of the State Auditor includes the federal grant activity for federal programs reported in the schedule. These programs were selected for audit by the Office of the State Auditor and do not represent all of the federal expenditures of MDE. The Schedule is presented on an accrual basis of accounting in accordance with *Generally Accepted Accounting Principles*.

The information in this Schedule is also presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Expenditures of selected federal award grant funds are made for the purposes specified by the grantor, and are subject to certain restrictions. Expenditures are also subject to audit by the relevant federal agency. In the opinion of management, disallowed costs, if any, from such audits will not have a material effect on this Schedule or the financial position of MDE.

NOTE 2 INDIRECT COST

MDE did not elect to use the 10% de minimis cost rate for indirect costs.

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Federal Awards Section

	<u>Yes</u>	<u>None Reported</u>
Material weakness(es) identified?	X	
Significant deficiency(ies) identified not considered to be material weaknesses?	X	
Type of auditors' report on compliance for major programs:		See below
	<u>Yes</u>	<u>None Reported</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 510 (a)	X	

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
10.553, 10.555, 10.559	Child Nutrition Cluster	Unmodified
10.558	Child and Adult Food Program	Unmodified
84.010	Title I	Qualified
84.027, 84.0173	Special Education Cluster	Unmodified
84.048	Career and Technology	Unmodified
84.287	21 st Century Community Learning Centers	Qualified
84.367	Title II: Improving Teacher Quality	Unmodified

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

ALLOWABLE COSTS AND ACTIVITIES

Material Weakness

Material Noncompliance

2016-038 Internal controls over posting federal program costs to the general ledger should be strengthened.

CFDA Number 84.010 – Title I

Federal Award ES010A150024

Federal Agency U.S. Department of Education

Pass-through Entity N/A

Questioned Costs Approximately \$7.6 million

Criteria Control: 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements* (the Uniform Guidance) requires non-Federal entities to establish and maintain effective internal controls over Federal awards so that they provide reasonable assurance that the non-Federal entity is managing Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of Federal awards per 2 CFR section 200.303(a).

Compliance: 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements* requires allowable costs to be necessary and reasonable for the performance of the Federal award and conform to any limitations or exclusions set forth in the cost principles or in the Federal award as to types or amount of cost items.

Condition The former Director of Fiscal Management in the Office of Federal Programs (OFP) instructed the school payment supervisor in the Office of Accounting to override procedures and record 21st Century Community Learning Center (21st Century program) expenditures to the Title I, Part A funds (Title I).

As required by MDE's procedures, the Office of Accounting notified the former Director of Fiscal Management that the 21st Century grant didn't have available funds to process subrecipients' reimbursement requests. The former Director of Fiscal Management sent an email to the Office of Accounting and instructed the staff to charge the expenditures to the Title I program, which were subsequently drawn from the U.S. Department of Education (USDE) as Title I program costs. The Director of the Office of Accounting and the former Executive Director of the OFP received the email from the former Director of

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Fiscal Management instructing the Office of Accounting staff to charge the costs to Title I. The Chief Operations Officer was not notified of the 21st Century shortage of available funds or the decision to charge the Title I program for 21st Century expenditures. As a result of the misused funds, MDE terminated the OFP Director of Fiscal Management, the Executive Director of the Office of Federal Programs, and the 21st Century Program Coordinator.

MDE charged 21st Century program expenditures to the Title I program for three months beginning April 2016 to June 2016. MDE contacted USDE immediately upon identification that the unallowed process had occurred, and is currently in communication with the grantor regarding resolution and any other grantor requirements in response to the misused funds. MDE drew approximately, \$7.6 million from USDE for the unallowed Title I costs, which will be repaid using MDE's general fund.

Cause

The former Director of Fiscal Management in OFP overrode MDE's accounting procedures in order to cover a shortfall of available funds for the 21st Century program. MDE's procedures and internal controls were inadequate to prevent and/or detect the override; as timely reconciliation of 21st Century and Title I's expenditures, cash receipts and available funding may have disclosed the override in a timely manner.

Effect

As a result, MDE misused approximately, \$3.9 million of Title I program funds in July 2016 (subsequent fiscal year). The funds were repaid during FY 17 by transferring 21st Century funds to the Title I program.

MDE charged unallowed program expenditures to the Title I and incorrectly drew the funds from USDE. Current procedures did not prevent or detect the misuse of federal funds in a timely manner. MDE is required to use reimburse the Title I program using MDE's general funds.

Recommendation:

MDE should review and enhance current procedures to avoid a reoccurrence. The procedural updates should (at a minimum) provide a protocol for the Office of Accounting in regards to making changes to approved payment requests (MAGIC internal order, payee, dollar amount, etc.). If a change is requested, the Office of Accounting should not process the request until a changes have been approved by the designated parties. The Department should make the proper changes, obtain approvals and resubmit to the Office of Accounting. If the Office of Accounting is unable to process the request due to unavailable program funds, the resubmitted request should be (at a minimum) reviewed and approved by the Director of the Office of Accounting, the Chief Operations Officer, the Program Chief and the applicable program Executive Director.

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

MDE should require federally supported programs to reconcile expenditures, cash receipt and available funds on a monthly basis (no later than quarterly) to identify errors and potential financial concerns in a timely manner. Evidence of the review and conclusions reached should be documented and readily available.

Repeat Finding

No

**Statistically Valid
Views of responsible
officials**

N/A

See additional comments in the Corrective Action Plan in this audit report.

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

SUBRECIPIENT MONITORING – SUB AWARD

Non-compliance

Significant Deficiency, Internal Control

2016-039 Internal controls over sub awards should be reviewed to ensure that the sub awards include all federal compliance requirements.

CFDA Number 84.010 – Title I, 84.367 – Title II

Federal Award Title I - ES010A130024, ES010A140024
Title II - ES367A130023, ES367A140023, ES367A150023

Federal Agency U.S. Department of Education

Pass-through Entity N/A

Questioned Costs None noted. The requirement does not affect allowable costs.

Criteria Control: Per 2 CFR section 200.303 - internal controls must be established and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards.

Compliance: Per 2 CFR section 200.331 – Requirements for Pass Through Entities, the pass through entity (PTE) should ensure that every subaward is clearly identified to the subrecipient as a subaward and includes certain data elements at the time of the subaward; and, if any of these data elements change, include the changes in subsequent award modification. When some of this information is not available, the PTE must provide the best information available to describe the Federal Award and subaward. The data elements must include CFDA number and name and the PTE must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement.

Condition During our testing, we noted that the grant agreements for 18 Title I and 18 Title II subrecipients (District) did not contain the required award identification information as identified in 2 CFR 200.331. The Office of Federal Programs (the Office) issues an allocation worksheet to the Districts which identifies the District’s funding for

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

the Title I, II, III, VI, and X programs. The allocation worksheet does not meet the compliance requirements for sub recipient sub awards.

The Office requires each district to complete an annual consolidated application which identifies the program (Title, CFDA and award period), program objectives, goals and metrics. The consolidated application is approved and is a program tool for the Districts. However, the actual award notice to the Districts is an allocation worksheet, which is non-compliant and does not cross reference the annual consolidated application, linking the application as part of the sub award.

Cause The Office did not update the Districts' sub awards to include all of the required information in accordance with Uniform Guidance.

Effect The sub award is not in compliance with federal requirements.

Recommendation: The annual consolidated application process ensures that the program information and requirements are communicated and addressed by the Districts. However, the sub award is the official notice of funds to the Districts and should clearly state the required terms of the award; cross references to additional program requirements, assurances, etc., should be identified in the sub award as well.

We recommend the Office review the subaward requirements under Uniform Guidance and incorporate the requirements into the subaward process.

Repeat Finding No

Statistically Valid 18 out of 18 Title I and 18 out of 18 Title II District sub awards selected for testing were not in compliance with federal requirements.

Views of responsible officials See additional comments in the Corrective Action Plan in this audit report.

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

SUBRECIPIENT MONITORING – SUB AWARD

Non-compliance

Significant Deficiency, Internal Control

2016-040 Internal controls over sub awards should be reviewed to ensure that the sub awards include all federal compliance requirements.

CFDA Number 84.048 – Career and Technical Education

Federal Award EV048A140024, EV048A150024

Federal Agency U.S. Department of Education

Pass-through Entity None

Questioned Costs None noted. The requirement does not affect allowable costs.

Criteria Control: Per 2 CFR section 200.303 - internal controls must be established and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards.

Compliance: Per 2 CFR section 200.331 – Requirements for Pass Through Entities, the pass through entity (PTE) should ensure that every subaward is clearly identified to the subrecipient as a subaward and include certain data elements at the time of the subaward; and, if any of these data elements change, include the changes in subsequent award modification. When some of this information is not available, the PTE must provide the best information available to describe the Federal Award and subaward. The data elements must include CFDA number and name and the PTE must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement.

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Condition	<p>During our testing, we noted that the sub awards for 4 out of 4 subrecipients (District) did not contain the required award identification information as identified in 2 CFR 200.331. The Office of Career and Technical Education (the Office) sends an electronic funding approval notice to the Districts; the funding notice does not meet the compliance requirements for sub recipient sub awards.</p> <p>The Office requires each district to complete a multi-year application which identifies the program (Title, CFDA and award period), program objectives, goals and metrics. The consolidated application is approved and is a program tool for the Districts. However, the actual award notice to the Districts is the approved funding notice, which is not compliant and does not cross reference the multi-year application, linking the application as part of the sub award.</p>
Cause	<p>The Office did not update the Districts' sub awards to include all of the required information in accordance with Uniform Guidance.</p>
Effect	<p>The sub award is not in compliance with federal requirements.</p>
Recommendation:	<p>The multi-year application process ensures that the program information and requirements are communicated and addressed by the Districts. However, the sub award is the official notice of funds to the Districts and should clearly state the required terms of the award; cross references to additional program requirements, assurances, etc., should be identified in the sub award as well.</p> <p>We recommend the Office review the subaward requirements under Uniform Guidance and incorporate the requirements into the subaward process.</p>
Repeat Finding	<p>No</p>
Statistically Valid	<p>4 out of 4 District sub awards selected for testing were not in compliance with federal requirements.</p>
Views of responsible officials	<p>See additional comments in the Corrective Action Plan in this audit report.</p>

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

REPORTING

Significant Deficiency, Internal Control

2016-041 Internal controls over reporting should be strengthened to ensure that supporting documentation is maintained in accordance with federal and state retention policies.

CFDA Number 84.048 – Career and Technical Education

Federal Award EV048A140024, EV048A150024

Federal Agency U.S. Department of Education

Pass-through Entity None

Questioned Costs None noted. The requirement does not affect allowable costs.

Criteria Control: Per 2 CFR section 200.303 - Internal Controls Must be Established and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards.

Condition The financial data for the interim FSR did not agree to supporting documentation. We selected 2 FSRs for testing and agreed the financial data to MAGIC. The following differences were noted for one of the reports tested:

<u>Expenditure Category</u>	<u>Interim FSR</u>	<u>Supporting Documentation</u>	<u>Variance</u>
Administration	\$473,624	\$422,651	\$50,973
Post-Secondary	\$5,268,778	\$4,642,479	\$626,299
Secondary	\$5,771,807	\$5,550,771	\$221,036
Non Traditional	\$60,000	\$72,133	(\$12,133)
Leadership	\$1,126,600	\$286,077	\$840,523

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Cause	The Department of Education's building was subject to heavy smoke and water damage due to a fire at an adjoining building. As a result, the Office of Career and Technical Education (the Office) lost program and financial documents that were maintained in the building. The Office attempted to recreate the financial data but due to the implementation of a new state-wide financial system, some grant activity was not recorded to a specific grant and was identified as NRGRANT.
Effect	The Office is unable to support the financial data reported on the interim FSR.
Recommendation:	We recommend the Office inquire about electronic storage methods to prevent loss of documentation in the future.
Repeat Finding	No
Statistically Valid	1 out of 2 FSRs selected for testing did not agree to the supporting documentation.
Views of responsible officials	See additional comments in the Corrective Action Plan in this audit report.

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

SUB RECIPIENT MONITORING

***Scope Limitation- Material Weakness
Material Non-compliance***

2016-042	<u>Internal controls over reporting should be strengthened to ensure that supporting documentation is maintained in accordance with federal and state retention policies.</u>
CFDA Number	84.287 – 21 st Century Community Learning Centers
Federal Award	ES287C130024, ES287C140024
Federal Agency	U.S. Department of Education
Pass-through Entity	N/A
Questioned Costs	Undetermined, based on the lack of documentation we can't determine questioned costs.
Criteria	<p>Control: Per 2 CFR section 200.303 - Internal Controls Must be Established and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards.</p> <p>Compliance: Per 2 CFR section 200.331 – Requirements for Pass Through Entities, the pass through entity (PTE) requires the PTE to:</p> <ol style="list-style-type: none">1. Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward.2. Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.3. Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes,

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

4. Verify that every subrecipient is audited as required by Subpart F—Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 Audit requirements.

Compliance: Per 2 CFR section 200.331, Retention requirements for records - Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. Federal awarding agencies and pass-through entities must not impose any other record retention requirements upon non-Federal entities.

Condition

During our testing of 17 subrecipients, we noted that documentation supporting subrecipient sub assessment, award and monitoring activities were either not provided or incomplete. The Office procedures require each subrecipient to prepare a proposal in response to the RFP. The proposals are evaluated/scored/approved and sub awards are issued to the subrecipients. The proposal is part of the grant award as it contains program objectives, requirements, subrecipient suspension and debarment attestation, and program budget (including matching requirements). Based our audit the following was noted:

1. Subrecipient Proposal- The 21st century community learning center FY 16 proposal package (includes federal program CFRs, program requirements/objectives budget (matching requirements) needs assessment, attestation to suspension and debarment), participation letter, conflict of interest was not provided for the following 3 subrecipients:
 - a. Boys & Girls Clubs of Central MS-Sykes Unit,
 - b. Mississippi Community Education Center, and
 - c. Back to Basics.

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

2. Subrecipient Assessment- 21st Century Community Learning continuation application review sheet for FY 2016 was either not provided or signed for the following 16 subrecipients:

Not Provided:

- a. Jackson Public School District,
- b. Boys & Girls Clubs of Central MS-Sykes Unit,
- c. Boys & Girls Community Learning Center,
- d. Mississippi Community Education Center,
- e. Back to Basics,
- f. Montgomery MDE School District,
- g. Southern Dropout Prevention Alliance,
- h. Baldwin School District,
- i. Leadership Next-Generation Plus, Inc.,
- j. Perry MDE School District,
- k. Real Faith Christian Church.

Not signed (incomplete):

- l. Chicksaw MDE School District,
- m. Scientific Research (SR1)-Canton (not signed),
- n. Scientific Research (SR1) Ridgeland (not signed),
Scientific Research (SR1) Forest (not signed),
- o. Walthall MDE Schools, and
- p. Winona School District (not signed).

3. Subrecipient Subward – DUNS was not provided or identified on the sub award for all 17 subrecipients. The sub award was not provided for FY 2016 for the following 6 subrecipients:

- a. Mississippi Community Education Center- last issued 2013,
- b. Scientific Research (SR1)-Canton – last issued 2014,
- c. Scientific Research (SR1) Ridgeland – last issued 2014,
- d. Scientific Research (SR1) Forest – last issued 2014,
- e. Winona School District – last issued 2014, and
- f. Back to Basics – last issued 2014.

4. Subrecipient Monitoring- Documentation of subrecipient monitoring consisted of a “yes/no” checklist; identification of documentation reviewed as part of the monitoring process was identified. The monitoring checklist was not provided for the following 4 subrecipients:

- a. Chicksaw MDE School District,
- b. Boys & Girls Clubs of Central MS-Sykes Unit,
- c. Boys & Girls Community Learning Center, and
- d. Back to Basics.

Due to the lack of monitoring documentation, we could not determine if the subrecipients listed above were monitored in accordance with the Office's procedures.

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Cause	<p>The Department of Education's building was subject to heavy smoke and water damage due to a fire at an adjoining building which contributed to the destruction of subrecipient proposals and MDE's sub recipient assessment.</p> <p>In addition, the Office of Federal Programs experienced turnover and documentation was lost during the transition.</p>
Effect	<p>The Office cannot support its assessment, subaward and monitoring of subrecipient activities which may cause the grantor to question costs.</p>
Recommendation:	<p>We recommend the Office review the current procedures for maintaining subrecipient documentation to ensure documentation is maintained in accordance with the State and federal retention policy. The procedures should identify where documentation is maintained, who has access to the retained documents and if the documents are maintained in electronic or paper format.</p>
Repeat Finding	<p>No</p>
Statistically Valid	<p>Refer to the condition.</p>
Views of responsible officials	<p>See additional comments in the Corrective Action Plan in this audit report.</p>

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2016**

2014-006 Controls Should Be Strengthened in the Office of Child Nutrition over Federal Funding Accountability and Transparency Act (FFATA) Reporting to Ensure Compliance with Federal Reporting Requirements

10.553	School Breakfast Program (SBP)
10.555	National School Lunch Program (NSLP)
10.556	Special Milk Program for Children (SMP)
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children (SFSPC)

Current Status: **Partial**

Planned corrective action: The Office of Technology and Strategic Services (OTSS) completed changes to OCeaN system to prevent reporting errors. OTSS also implemented a change control management procedure to document change requests to the system. Further, the Office of Child Nutrition, working with OTSS and the Mississippi Department of Information Technology Services, has procured and implemented a state of the art contract and claims system that has replaced OCeaN.

2014-008 Controls Should Be Strengthened over Payments Made to Subrecipients of the Child Nutrition Cluster and Child and Adult Care Food Programs

10.553	School Breakfast Program (SBP)
10.555	National School Lunch Program (NSLP)
10.556	Special Milk Program for Children (SMP)
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children (SFSPC)

Current Status: **Corrected**

2015-022 Controls Should Be Strengthened over Federal Reporting for the Child and Adult Care Food Program and the Child Nutrition Programs

10.553	National School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children

Current Status: **Corrected**

**MISSISSIPPI DEPARTMENT OF EDUCATION
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2016**

2015-023 Controls Should Be Strengthen over Allowable Costs for the Child and Adult Care Food Program and the Child Nutrition Programs

10.553	National School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer food Service Program for Children

Current Status: **Corrected**

CORRECTIVE ACTION PLANS



MISSISSIPPI DEPARTMENT OF EDUCATION

Carey M. Wright, Ed.D.
State Superintendent of Education

March 28, 2017

Single Audit Findings

Stacey E. Pickering, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. Pickering:

In accordance with your correspondence dated March 20, 2017, the Mississippi Department of Education (MDE) is providing the following response and corrective action plan for the single audit findings for the fiscal year ending June 30, 2016.

AUDIT FINDINGS:

Allowable Cost and Activities

84.010 Title I

2016-038 Internal controls over posting federal program costs to the general ledger should be strengthened.

Response: The MDE acknowledges that unallowed costs were charged to the Title I program, and steps are being implemented to prevent this from reoccurring.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

Upon discovery, the MDE immediately required that any recoding or adjustments for payments be approved by members of the Executive Leadership Team before payments were finalized. In addition, MDE initialized a comprehensive review of

current processes and procedures to ensure that this would not reoccur. The procedures are being documented and will include approval levels up to and including the Chief of the respective bureau and the Chief Operations Officer. Currently, a form is being drafted to document the approvals at all levels to ensure that no adjustments or recoding occurs without final approval from the respective Chiefs. In addition, the agency has contracted with an outside Consultant to provide consultation services to revise and align MDE Policies and Procedures with the Mississippi Accountability System for Government Information and Collaboration (MAGIC). To ensure that the agency has a person on staff dedicated specifically to monitoring compliance, the Chief Operations Officer will be realigning the Operations department and designating someone on staff as a Compliance Manager. In addition, the Department of Finance and Administration has agreed to assist the agency as needed and to provide a member of their staff to facilitate training as necessary with MAGIC.

B. Name of the contact person responsible for corrective action.

Felicia Gavin, Ph.D. – Chief Operations Officer

C. Anticipated completion date for corrective action.

June 30, 2017

Subrecipient Monitoring – Sub Awards

84.010 Title I and Title II

2016-039 Internal controls over sub awards should be reviewed to ensure that the sub awards include all federal compliance requirements.

Response: The Office of Federal Programs (OFP) concurs with this finding and is implementing the appropriate corrective action to meet the tenants of the law.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

The Office of Federal Programs (OFP) developed a Federal Award Notification template in December 2016 that the CliftonLarsonAllen firm reviewed for compliance with the Uniformed Grant Guidance. The OFP has begun using this template to create the Federal Award Notifications for all FY17 Final Allocations. These notices will be posted on the Federal Programs webpage, and uploaded into the Mississippi Comprehensive Automated Performance-based System (MCAPS), annually.

B. Name of the contact person responsible for corrective action.

Elisha Campbell, Fiscal Director, Office of Federal Programs

C. Anticipated completion date for corrective action.

July 1, 2018

Subrecipient Monitoring – Sub Awards

84.048 Career and Technical Education

2016-40 Internal controls over sub awards should be reviewed to ensure that the sub awards include all federal compliance requirements.

Response: The Career and Technical Education (CTE) grant award is a five-year grant (2008-2012) that has been extended annually by Congress over the last five years in the absence of federal reauthorization. Initially, subrecipients submitted to the Mississippi Department of Education (MDE) a five-year local plan application (2008-2012) that contained federal compliance requirements. The approved local plan application became the official grant award for subrecipients. The application acknowledged that the grant period covered Federal Program Years 2008-2012, and allocations would be made each year with the submission of a Local Plan Update (LPU). Based on the May 2016 federal review of CTE, MDE made changes to the local plan application and those changes were subsequently approved. MDE recognizes the need to strengthen annual LPUs (sub awards) and have addressed this finding in sub awards being issued for FY 2018.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

The Office of Career and Technical Education (OCTE) revised its annual sub award documentation (Local Plan Update-LPU) and funding notifications to meet Uniform Grant Guidance. These documents have been uploaded into Lotus Notes, the CTE federal grants management system. The OCTE will require subrecipients to use the revised Local Plan Update (LPU) beginning with their April 2017 submission.

B. Name of the contact person responsible for corrective action.

Mike Mulvihill, Director of Career and Technical Education

C. Anticipated completion date for corrective action.

April 18, 2017

Reporting

84.048 Career and Technical Education

2016-41 Internal controls over reporting should be strengthened to ensure that supporting documentation is maintained in accordance with federal and state retention policies.

Response: The Career and Technical Education (CTE) federal grant is a formula grant with six subcategories of funding. In previous years, the Office of Career and Technical Education (OCTE) used reports generated through Mississippi Executive Resource Library and Information Network (MERLIN), an electronic data warehouse of accounting, to provide accurate supporting documentation for financial status reports. Effective July 1, 2014, MERLIN was replaced by Mississippi's Accountability System for Government Information and Collaboration (MAGIC). The new system did not have any report type available to provide the needed documentation, nor did MDE staff have the capability to create a similar MERLIN report from MAGIC. The OCTE used internal expenditure records as supporting documentation to prepare the interim financial status report. Following the fire at Central High School on July 19, 2015, many of those internal records were destroyed.

To strengthen internal controls for reporting, subcategories have been created in MAGIC. Therefore, recently submitted financial status reports accurately reflect the supporting documentation pulled from MAGIC. Also, an electronic records retrieval system will be used for storing all financial documentation.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

To strengthen internal controls, the Mississippi Department of Education has incorporated a more thorough review process for CTE financial status reports by ensuring that reports are reviewed independently by the Office of Accounting prior to submission. Also, to ensure that records are maintained, an electronic records retrieval system will be used to store all supporting documentation for federal financial status reports.

B. Name of the contact person responsible for corrective action.

Mike Mulvihill, Director of Career and Technical Education

C. Anticipated completion date for corrective action.

June 30, 2017

Reporting

84.287 21st Century Community Learning Centers

2016-42 Internal controls over reporting should be strengthened to ensure that supporting documentation is maintained in accordance with federal and state retention policies.

Response: Following the fire, smoke, and subsequent water damage at the Central High School Building on July 19, 2015, the Office of Federal Programs (OFP) lost documents due to water damage. Additionally, due to damage in the office space assigned to OFP and the department, the entire MDE staff and offices were relocated offsite and only permitted to take a limited number of files and supplies due to limited space. The damage was so extensive that staff members within the Office of Federal Programs were only allowed a half day to retrieve items from their work areas. As a result of the fire, the OFP was relocated several times.

New leadership was assigned to the OFP which includes a Bureau Manager who provides oversight to the programs housed within the office and a Director of Finance. In addition, the 21st CCLC Program was assigned new staff. Through the work of the OFP staff, the files for the 21st CCLC program were methodically assessed for completeness. The staff is continuing the attempt to reconstruct the files.

OFP recognizes the value of maintaining electronic records to verify and ensure record retention.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation.

The Office of Federal Programs (OFP) has begun maintaining electronic copies of all official documents. To achieve this process OFP staff members are required to save all official correspondence with subrecipients electronically. Written internal protocols for document retention will be developed in conjunction with the Office of Technology and Strategic Services.

Stacey E. Pickering

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March 28, 2017


B. Name of the contact person responsible for corrective action.

Quentin Ransburg, Director of Federal Programs

C. Anticipated completion date for corrective action.

July 1, 2018

Sincerely,

A handwritten signature in black ink, appearing to read "Carey M. Wright". The signature is fluid and cursive, with the first name "Carey" and last name "Wright" clearly distinguishable.

Carey M. Wright, Ed.D.

State Superintendent of Education