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In planning and performing our audit of selected accounts included in the financial statements of **Jackson State University (the University)** for the fiscal year ended June 30, 2006, we considered **the University's** internal control over financial reporting in order to determine our auditing procedures for the purpose of concluding as to whether the selected accounts included in **the University's** financial statements present fairly, in all material respects, in conformity with the accounting principles generally accepted in the United States of America. We do not provide any assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of **the University's** internal control.

Our consideration of internal control was of the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be material weaknesses. However, as discussed below, we identified certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **the University's** ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that all of the reportable conditions described below are material weaknesses.

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The reportable conditions are summarized as follows:

### **Cash Reconciliations Were Not Prepared and Reviewed Timely**

#### Observation:

The University has a system in place to reconcile cash accounts to general ledger. During our audit, we noted instances whereby significant reconciling items such as checks issued and outstanding for several months with no follow-up and timely disposition of items. We also noted no evidence of timely review of the reconciliation of these accounts. Also, the University had not timely resolved the reconciling of material differences between the general ledger balances and several cash account balances. These conditions resulted in significant adjustments and reclassifications in order to balance these accounts at year end. These situations invariably did not facilitate timely completion of financial statement preparation.

#### Recommendation:

We recommend that all bank accounts be reconciled monthly and all outstanding reconciling items be cleared and resolved on a monthly basis. All necessary adjustments should be posted to the books on a timely basis. These efforts will reduce the risk of undetected errors, misstatements or misappropriation of cash being undetected in a timely fashion. The person preparing the reconciliation should sign and date the reconciliation at the time of completion. A supervisor above the preparer should review, sign and date the reconciliation as evidence of such review and agreement to the general ledger.

### **Recordation and Consistent Reconciliation of Investment Activities**

#### Observation:

During the audit of investment accounts, we noted that several investment transactions were erroneously or untimely recorded in the general ledger thereby undermining the completeness and accuracy of investments at year end. We also noted significant reconciling differences between the general ledger balances and investment account supporting documentations that were not resolved timely. Some of these accounts had to be manually reconciled at year end to determine the true and valid investments. This situation resulted in major adjustments and reclassifications in order to balance the accounts, and untimely delay in preparation of financial statements.

### **Recordation and Reconciliation of Investment Activities, Continued**

#### Recommendation:

We recommend that a reconciliation of investment accounts from the general ledger to the detailed supporting documentation be prepared on each investment account on a monthly basis. The detail of investment accounts and related reconciliation should be reviewed by an appropriate supervisory individual to determine the completeness, validity and accuracy of the investment accounts.

### **Differences in Fixed Assets Reconciliations**

#### Observation:

We noted that a completed up-to-date fixed asset inventory ledger and related supporting documentation as of June 30, 2006 did not agree with general ledger balances. **The University** has in the past allowed the difference to go unresolved on a timely basis. The cause of this condition is partly associated with the way all supporting documentation received from the State of Mississippi are handled. The construction in progress account also had significant reconciling differences.

#### Recommendation:

We recommend that **the University** re-evaluate the current policies and procedures in place regarding fixed assets and implement procedures that will result in reconciling the fixed assets detail to the general ledger on a monthly basis.

### **Lack of Sufficient Review of Financial Data**

#### Observation:

At the beginning of our audit fieldwork, certain schedules and analyses were provided to us. Many of these schedules were either unuseable or returned for corrections. In the majority of the supporting documentation and other data reviewed by us, there appeared to have been a lack of sufficient review by the preparer of the various schedules and analysis to determine the accuracy of the data. Lack of appropriate review at all levels can permit errors to be made without timely detection.

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### **Lack of Sufficient Review of Financial Data, Continued**

#### Recommendation:

Management is responsible for establishing and maintaining internal controls relating to financial statements. Every effort should be intensified to ensure reliability of financial reporting in an efficient and effective manner.

### **Financial Statement Preparation**

#### Observation:

The financial statements submitted to the Office of the State Auditor of Mississippi had to be revised several times with significant adjustments and reclassifications.

#### Recommendation:

We strongly recommend that complete financial statements be prepared monthly, but under no circumstances less than quarterly. The financial statements should be thoroughly reviewed by top management for accuracy prior to external release. Account analysis should be performed monthly on material accounts appearing on the financial statements to determine the accuracy of such accounts.

Considering the timeframe for issuance of the June 30, 2006 financial statements, we also recommend that financial statements for the six month period ended December 31, 2006 be completed by February 28, 2007 and analyzed for accuracy with the account analysis mentioned above.

### Management Anti-Fraud Programs and Controls

#### Observation:

In recent years, fraud has become a significant problem for many companies, not-for-profit organizations and government entities regardless of their size. Material financial statement fraud can have a significant adverse effect on an entity's market value, reputation and ability to achieve its strategic objectives. Such fraud may occur if there is a lack of anti-fraud programs and controls in place to help prevent, deter and detect such fraud.

Management is responsible for designing and implementing systems and procedures for the prevention and detection of fraud and, along with Board of Directors/Trustees for ensuring a culture and environments that promote honesty and ethical behavior.

Recently, the American Institute of Certified Public Accountants issued Statements on Auditing Standards (SAS) No. 99- "Consideration of Fraud in a Financial Statement Audit". SAS 99 was issued in response to numerous problems and studies about fraud. Among other things, this standard provides guidance to assist management in the development of anti-fraud programs and controls.

This document identifies ways entities can implement procedures to prevent, deter and detect fraud. Broadly stated, the fundamental elements are:

1. Creating and maintaining a culture of honesty and high ethics;
2. Evaluating the risks of fraud and implementing the processes, procedures and controls needed to mitigate the risks and reduce the opportunities for fraud; and
3. Developing an appropriate oversight process.

#### Recommendation:

We recommend that management consider how these elements are being implemented or can be implemented into **the University's** operating environment to improve the ability of **the University** to prevent or detect fraud. We would be pleased to provide additional information to assist you in this endeavor.

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**Lack of Follow up and Correct Previously Identified Internal Weaknesses**

Observation:

The prior year's management letter comments identified three (3) internal control weaknesses as follows:

1. Cash reconciliations
2. Construction in progress
3. Investment activity

We noted insignificant efforts or improvements in following up and correcting these weaknesses in current year. As a result, these weaknesses were considered unresolved and repeated in current year comments.

Recommendation:

Management should look into ways to improve on these conditions and timely implement necessary procedures to ensure controls are effectively maintained at all times.

A review of the status of these comments will be performed during the next audit engagement. We have already discussed many of these comments and suggestions with various university personnel, and we will be pleased to discuss these comments in further detail at your earliest convenience, to perform any additional study of these matters, or to assist you implementing the recommendations.

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This report is intended solely for the information and use of the Office of the State Auditor of Mississippi, the Board of Trustees, Institution of Higher Learning, management, and others within the administration of **the University**, and is not intended to be and should not be used by anyone other than these specified parties.

*Bruno & Tervalon LLP*  
**BRUNO & TERVALON LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

November 27, 2006

