



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

May 22, 2007

FINANCIAL AND SINGLE AUDIT MANAGEMENT REPORT

Dr. Robert H. Foglesong, President
Mississippi State University
P. O. Box 6018
Mississippi State, MS 39762

Dear Dr. Foglesong:

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of Mississippi State University for the year ended June 30, 2006. Mississippi State University's financial statements are consolidated into the State of Mississippi - Institutions of Higher Learning (IHL) audit report. In addition, an audit of federal awards was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. In addition to auditing certain selected accounts included on the financial statements, our audit procedures included performing state legal compliance tests, federal compliance tests, updating our understanding and documentation of various internal control systems in place at the university, and other procedures we deemed necessary.

These procedures and tests cannot and do not provide absolute assurance that all state and federal legal requirements have been met. In accordance with Section 7-7-21 I, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to insure compliance with legal requirements.

Enclosed are the findings and our recommendations for correction which came to our attention while performing our audit procedures at Mississippi State University as part of our audit of the IHL for the year ended June 30, 2006. The Schedule of Findings and Questioned Costs enclosed includes three sections:

1. Findings Related to the Financial Statements
2. Findings and Questioned Costs for Federal Awards
3. Other Findings

The findings noted in section two will be included in the IHL audit report along with your Corrective Action Plan (CAP) regarding these findings. Section three noted above includes deficiencies in internal controls which came to our attention during our audit that we believe should be brought to management's attention. Because of the materiality threshold for the IHL audit being greater than the materiality threshold at each university considered individually, the Other Findings noted in section three above will not be included in the IHL report. A Corrective Action Plan should be prepared for these findings also. The Corrective Action Plans (CAP) should be submitted to this office within 10 working days from the date you receive this letter. An example of a CAP is included with this letter. Please prepare your CAP in this format. The CAP should provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If you do not agree with the audit findings or believe corrective action is not required, the CAP should include an explanation and specific reason.

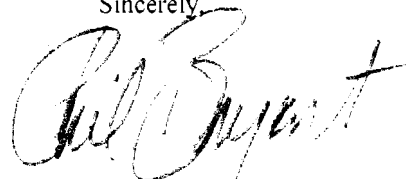
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During future engagements, the findings in this management report may be reviewed to insure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Phil Bryant". The signature is written in a cursive, flowing style.

PHIL BRYANT
State Auditor

PB/jg
Enclosures

cc: Dr. Thomas C. Meredith
Mr. Aubrey Patterson
Mr. Mike McGrevey

(University Letterhead)

Finding Corrective Action Plan Details

Other Findings

- Finding 1
- a. **Name(s) of Contact Person(s) Responsible for Corrective Action:**
 [Include name, title and phone number of contact person(s).]
 - b. **Corrective Action Planned:**
 [Describe corrective action that the university plans to take.]
 - c. **Anticipated Completion Date:**
 [Identify when the university plans to complete the corrective action that it plans to take. If applicable, include anticipated completion dates for steps involved in the corrective action process.]

Sincerely,

Chief Financial Officer

Findings Related to the Financial Statements

Internal Control Over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered Mississippi State University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements of the IHL and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain deficiencies in internal controls that we have included in the Other Findings section of this Schedule of Findings and Questioned Costs.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Mississippi - Institutions of Higher Learning (IHL) financial statements are free of material misstatement, we performed tests of Mississippi State University's 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 IHL's financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards**.

Findings and Questioned Costs for Federal Awards

Compliance

We have audited each of the major federal programs of IHL for compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) **Circular A-133 Compliance Supplement**. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of IHL's major federal programs at Mississippi State University is the responsibility of Mississippi State University's management. Our audit fieldwork included examining, on a test basis, evidence about Mississippi State University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. The results of our auditing procedures and tests disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133.

As described in Finding 2006-MSU-1 and 2006-MSU-2 the university did not comply with requirements regarding Davis - Bacon Act and Special Tests and Provisions, that are applicable to its Grants for Public Works and Economic Development Facilities CFDA # 11.300 and Brownsfield Economic Development Initiative CFDA # 14.246. Compliance with such requirements is necessary for the university to comply with requirements applicable to that program.

The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the finding 2006-MSU-3.

Internal Control Over Compliance

The management of Mississippi State University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit of the IHL's major federal programs at the Mississippi State University, we considered Mississippi State University's internal control over compliance with requirements that could have a direct and material effect on a major federal program of the IHL in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect the department's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 2006-MSU-1, 2006-MSU-2 and 2006-MSU-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, we consider Findings 2006-MSU-1 and 2006-MSU-2 to be material weaknesses.

Material Noncompliance Material Weakness

2006-MSU-1 **Controls over Compliance with Davis Bacon Requirements Should Be Strengthened**

Finding

Program: Other Programs; Grants for Public Works and Economic Development Facilities
CFDA #11.300; Brownsfield Economic Development Initiative CFDA # 14.246

Compliance requirement: Davis - Bacon Act

Questioned Cost: Amount Undetermined

The Davis-Bacon Act requires all contractors and subcontractors performing work on federal contracts or federally assisted contracts in excess of \$2,000 to pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits, as determined by the Secretary of Labor, for corresponding classes of laborers and mechanics employed on similar projects in the area.

The university did not monitor compliance with the Davis-Bacon Act on these construction projects and as a result, we were unable to determine that the contractors and subcontractors paid their employees prevailing wage rates on these projects.

The university has no system in place to monitor compliance with the Davis-Bacon Act.

Noncompliance with the compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* could result in disallowed costs.

Recommendation

The university should develop policies and procedures and establish internal controls to monitor compliance with the compliance requirement described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*.

Material Noncompliance
Material Weakness

2006-MSU-2 **Controls over Federal Compliance With Special Tests Should Be Strengthened**

Finding

Programs: Other Programs; Grants for Public Works and Economic Development Facilities
CFDA #11.300; Brownsfield Economic Development Initiative CFDA # 14.246

Compliance Requirement: Special Tests and Provisions

The Department of Labor regulations set forth in 41 CFR 60-4 establishes goals and timetables for participation of women and minorities in the construction industry. These regulations apply to all federally funded construction contracts in excess of \$10,000. Further, contractors and subcontractors should comply by including such notices, clauses and provisions in the solicitation for offers or bids.

The university could provide no documentation that they had complied with this requirement.

The university did not have controls in place to insure compliance with this requirement.

Noncompliance with the compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the grant agreement could result in disallowed costs.

Recommendation

The university should develop policies and procedures and establish internal controls to monitor compliance with the compliance requirement described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*.

Immaterial Noncompliance

2006-MSU-3 **Controls over Federal Compliance over Allowable Costs Should Be Strengthened**

Finding

Program: Research and Development Cluster;
Basic Scientific Research, CFDA # 12.431

Compliance Requirement: Allowable Costs/Cost Principles

Questioned Costs: \$40,120

Management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

During our audit of federal expenditures, we noted that salaries for two employees, totaling \$40,120 were charged to the grant in error.

A weakness in the university's internal control system resulted in unallowable expenses being charged to the grant.

Failure to insure that only costs allowable under program requirements are charged to the program could result in disallowed costs.

Recommendation

The university should strengthen its internal control system to insure that unallowable charges to any federal program would be detected and prevented. The university should contact the grantor agency for disposition of the questioned costs.

Reportable Condition

2006-MSU-4 **Controls over Federal Compliance over Allowable Costs Should Be Strengthened**

Finding

Programs: Grants for Public Works and Economic Development Facilities CFDA #11.300;
Brownsfield Economic Development Initiative CFDA # 14.246;
Basic Scientific Research, CFDA # 12.431;
University-Laboratory Cooperative Program, CFDA #81.004;
Cooperative Extension Service, CFDA #10.500

Compliance Requirement: Allowable Costs/Cost Principles

Management is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

During our audit of federal grants, we noted in many instances that expenditures were not approved by the principal investigator or project director. Also, the designation of principal investigator or project director was not always being updated when changes occurred, such as an employee leaving the university.

Expenditures of federal funds which are not in compliance with the United States Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, and the grant agreement can result in disallowed costs.

Recommendation

Internal controls over federal grant expenditures should be strengthened to insure that federal funds are not expended prior to approval by the designated principal investigator or project manager.

Further, grant files should be updated when changes in personnel occur.

Other Findings

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

1. **Controls over Fixed Assets Should Be Strengthened**

Finding

University management and the university property officer are responsible for establishing and maintaining internal controls over, and the safeguarding of, the fixed assets of the university, which totaled \$638,372,964 at June 30, 2006.

Due to a weakness in the university's internal controls with the property office, equipment in the amount of \$79,240 was released from the property office to an unauthorized individual who had no university affiliation. When the property officer was advised of the missing equipment, proper procedures were not followed for lost, stolen or missing property, which includes notifying university management, university police, or the Property Division of the State Auditor's Office.

Further, as this incident was not promptly reported to the Property Division of the State Auditor's Office, inaccurate property reports were certified by the university property officer. This failure to notify the appropriate authorities also delayed the investigation conducted by the university police.

Failure to adequately maintain proper controls over the recording and physical location of assets owned by the university could result in a loss to the university.

Recommendation

Management and the university property officer are responsible for the fixed assets of the university. Internal controls should be established and maintained to insure that all assets are transferred or disposed of only as allowed by the laws governing state property, as well as policies and procedures of the Property Division of the State Auditor's Office.

All employees of the university property office should be adequately trained in the policies and procedures regarding safeguarding of the fixed assets of the university. Any lost, stolen or missing property should be promptly reported to the appropriate university authorities and the proper procedures, as described in the State Property Officer's Manual, should be followed.

2. **Controls over Travel Reimbursements Should Be Strengthened**

Finding

- Management is responsible for insuring that travel reimbursements are made in accordance with Section 25-3-41, Miss. Code Ann. (1972), Department of Finance and Administration (DFA) policies, Institutions of Higher Learning policies and university policies. The Institutions of Higher Learning, State of Mississippi, Policy 705.0102 states, in part, that "all travel advances and reimbursements shall be made in strict conformity with state laws covering official travel".

The following Department of Finance and Administration (DFA) policies and State laws are applicable to travel expenditures of the university:

- A. DFA Policy 104 states that "travel in first class or business class is not a reimbursable expense".
- B. Section 25-3-41, Miss. Code Ann. (1972), provides for travel reimbursement for officers and employees of the State of Mississippi. There are no provisions for reimbursement of expenses for those who are not employees of the State.
- C. DFA Policy 103 states that "only one travel advance shall be outstanding at one time, additional advances require DFA-Bureau of Financial Control (BFC) approval".

During our audit of travel expenditures, we noted the following:

- A. One employee was reimbursed for first class air travel.
- B. One employee was reimbursed for expenses of a spouse.
- C. Several employees had multiple travel advances outstanding at year end. University travel advance policy B.2. states that "no more than four (4) advances may be outstanding at any given time". This does not conform to DFA Policy 103.

Recommendation

Controls over travel reimbursements should be strengthened to insure that reimbursements for travel expenses are made in accordance with Section 25-3-41, Miss. Code Ann.(1972), Department of Finance and Administration (DFA) policy and the institution's policies.

Employees responsible for approving and processing travel vouchers should be adequately trained to insure that travel reimbursements are processed in accordance with all applicable state laws and applicable policies prior to payment. The university should be reimbursed by employees for amounts paid which were not in compliance with these travel policies.

Controls over Expenditures Should Be Strengthened

Finding

Management is responsible for establishing internal controls over expenditures to insure that expenditures paid by the university are obligations of the university and are allowable under state law and Department of Finance and Administration (DFA) policies.

The following items were noted in our review of expenditures of the university:

- A. A \$374,228 payment was made by the university to an architectural firm for payment on a contract between Mississippi State University Bulldog Club (MSUBC) and the architectural firm.
- B. A \$227,939 payment was made to a subcontractor, from a past due statement. This type of documentation is not sufficient, as this does not provide details as to the nature of the expenditure.
- C. A disbursement of \$261,947 was made to a vendor for a project which was required, by State law, to be bid. There was no verification of date received on this particular bid; therefore, we could not determine that the bid was received by the advertised deadline. DFA policy 3.202.12.1 states that "upon its receipt, each bid and modification shall be stamped or time/date stamped."
- D. Construction in progress payments were approved for payment prior to the date of work performed as noted on the invoices.

Recommendation

Controls over expenditures should be strengthened to insure that expenditures are in compliance with state law, Department of Finance and Administration policies, as well as proper internal controls.

Further, controls should be in place to insure that disbursements are not issued for: donations or obligations of an affiliate which are prohibited by Article 4, Section of the Mississippi Constitution; invoices with insufficient documentation; projects which are not properly bid; or payments approved prior to the receipt of the goods or services for which payment is requested.

4. **Controls over Financial Reporting Should Be Strengthened**

Finding

Management is responsible for properly presenting, in its financial statements, expenditures transactions and related liabilities in accordance with generally accepted accounting principles.

As noted in prior audits, internal controls were not sufficient to insure that all obligations of the university were properly recorded at fiscal year end, resulting in an understatement of accounts payable items in the amount of \$1,840,347. Auditors proposed correcting entries which were subsequently made by management.

Recommendation

Internal controls should be strengthened to insure that liabilities are properly recorded at year end. Policies and procedures should be in place to coordinate the flow of invoices in order to fairly present the liabilities and expenses of the university.

5. **Controls over Financial Reporting and Expenditures Should Be Strengthened**

Finding

Management is responsible for insuring that financial statements are presented in accordance with generally accepted accounting principles, including recording transactions in the proper fiscal year. Further, management is responsible for insuring that university funds are expended only for the contractual and legal obligations of the university.

The university assumed an obligation of Mississippi State University Foundation (MSUF), an affiliate, and disbursed \$935,363 to the MSUF to satisfy this obligation. Further, this transaction was completed in fiscal year 2007; however, it was recorded as a fiscal year 2006 transaction.

We know of no authority for the university to assume an obligation of an affiliate.

Recommendation

Controls should be in place to insure that university funds are expended only for the contractual and legal obligations of the university. University funds should not be expended to satisfy an obligation of an affiliate.

Further, all transactions should be recorded in the fiscal year in which the transactions occur

6. **Controls over Preparing the Schedule Expenditure of Federal Awards**

Finding

Management is responsible for insuring the accuracy of all reports prepared by the university, including the Schedule of Expenditures of Federal Awards.

Expenditure amounts on the Schedule of Expenditures of Federal Awards were not reconciled with actual expenditures as reflected on the financial statements; therefore, a variance of \$4,228,966 existed at year end which required an adjustment by management to correct.

Due to this failure to reconcile the Schedule of Expenditures of Federal Awards, inaccurate figures resulted in an increase in items selected for audit test work.

Recommendation

Controls should be strengthened to insure that the Schedule of Expenditures of Federal Awards is reconciled to expenditures as reported on the university's financial statements. Any variances should be reconciled with sufficient detail for audit purposes.

7. **Controls over Payment of Employee Compensation**

Finding

Management is responsible for controls over disbursements to insure that compensation to employees is made in accordance with State law, Institute of Higher Learning's (IHL) policy, and university policy.

Controls were not in place to insure that all employees were submitting documentation of leave.

Recommendation

Management should implement policies and procedures to account for all leave taken by employees.

End of Report