



## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

April 17, 2007

### FINANCIAL AND SINGLE AUDIT MANAGEMENT REPORT

Dr. Robert Khayat, Chancellor  
University of Mississippi  
P. O. 1848  
University, MS 38677-1848

Dear Dr. Khayat:

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the University of Mississippi for the year ended June 30, 2006. The University of Mississippi'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 7-7-211, 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 is the finding and our recommendation for correction which came to our attention while performing our audit procedures at the University of Mississippi as part of our audit of the IHL for the year ended June 30, 2006. The Schedule of Findings and Questioned Costs enclosed includes two sections:

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

The finding noted in section two will be included in the IHL audit report along with your Corrective Action Plan (CAP) regarding this finding. The Corrective Action Plan (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 finding or believe corrective action is not required, the CAP should include an explanation and specific reason.

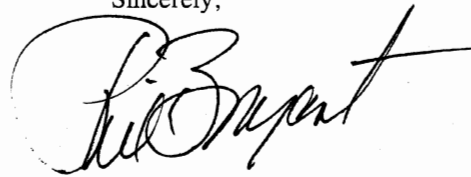
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During future engagements, the finding in this management report may be reviewed to insure procedures have been initiated to address this finding.

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 recommendation enables the University of Mississippi to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the University of Mississippi 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', written in a cursive style.

PHIL BRYANT  
State Auditor

PB/jg  
Enclosures

cc: Dr. Thomas C. Meredith  
Mr. Aubrey Patterson  
Mr. Larry Sparks



## **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 the University of Mississippi'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.

### **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 the University of Mississippi'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 the University of Mississippi is the responsibility of the University of Mississippi's management. Our audit fieldwork included examining, on a test basis, evidence about the University of Mississippi'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 an instance of noncompliance that is required to be reported in accordance with OMB Circular A-133.

### **Internal Control Over Compliance**

The management of the University of Mississippi 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 University of Mississippi, we considered the University of Mississippi'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 a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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.

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, we believe the reportable condition described below is not a material weakness.

**Reportable Condition**  
**Immaterial Noncompliance**

2006-UM-1 **Controls over Allowable Costs Should Be Strengthened**

Finding

Program: Research and Development Cluster; CFDA #93.283; Centers for Disease Control and Prevention – Investigations and Technical Assistance

Compliance requirement: Allowable costs/cost principles

Questioned Costs: \$258,056

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, we noted the university purchased equipment with grant funds even though equipment was not an allowable cost under the provisions of the grant agreement.

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

**End of Report**