



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

May 7, 2007

FINANCIAL AND SINGLE AUDIT MANAGEMENT REPORT

Dr. Shelby Thames, President
University of Southern Mississippi
P. O. Box 5001
Hattiesburg, MS 39406

Dear Dr. Thames:

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the University of Southern Mississippi for the year ended June 30, 2006. The University of Southern 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 are the findings and our recommendations for correction which came to our attention while performing our audit procedures at the University of Southern 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 three sections:

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

The finding noted in section two will be included in the IHL audit report along with your Corrective Action Plan (CAP) regarding this finding. Section three noted above includes a deficiency 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 Finding noted in section three above will not be included in the IHL report. A Corrective Action Plan should be prepared for this finding 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.

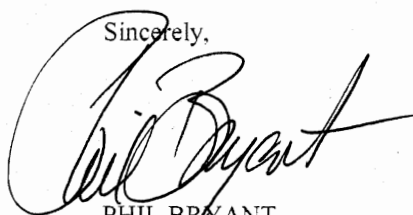
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During future engagements, the findings in this management report may be reviewed to insure procedures have been initiated to address these findings.

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 the University of Southern Mississippi to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the University of Southern 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. Joe Morgan

(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 the University of Southern 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. However, we noted a certain deficiency 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 the University of Southern 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 Southern Mississippi is the responsibility of the University of Southern Mississippi's management. Our audit fieldwork included examining, on a test basis, evidence about the University of Southern 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 Southern 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 Southern Mississippi, we considered the University of Southern 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-USM-1 **Controls over Equipment and Real Property Management Should Be Strengthened**

Finding

Program: Other Programs; CFDA #16.580; Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program

Compliance requirement: Equipment and Real Property Management

Questioned Cost: Amount Undetermined

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

The university did not have written documentation of the transfer of ownership of equipment purchased with grant funds as required in the grant agreement.

A weakness in the university's internal control system over equipment and real property management allowed the ownership of the equipment to be transferred without the required written documentation.

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 implement policies and procedures to insure that all requirements of the grant agreement are adhered to, including written documentation of the transfer of ownership of equipment.

Other Findings

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

Controls over Fixed Assets Should Be Strengthened

Finding

Management is responsible for establishing internal controls that will insure the complete and accurate recording and safeguarding of the fixed assets of the university, as well as insuring that the requirements of state law as they relate to fixed assets are complied with, as found in Sections 29-9-1 through 29-9-21, Miss. Code Ann. (1972).

The State Auditor's Office, Property Division conducted an audit of the university's equipment inventory and noted the following:

748 items of equipment, totaling \$1,238,927, were on the university's equipment inventory listing but could not be located by auditors. Included in this amount were 19 items of equipment over \$5,000, totaling \$405,783.

The auditors observed 1,485 items of equipment with USM inventory tags that were not included on the university's equipment inventory listing. No value could be determined for these items.

The university does not have adequate controls over the record keeping or the physical location of their equipment inventory.

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

Policies and procedures should be implemented to insure the complete and accurate recording and safeguarding of the fixed assets of the university, as well as insuring that the requirements of state law as they relate to fixed assets are complied with, as found in Sections 29-9-1 through 29-9-21, Miss. Code Ann. (1972).

End of the Report