

**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 442300000 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 442300000 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 442300000. 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	\$ 39,923,098	\$ 19,993,095
	<hr/> <hr/>	<hr/> <hr/>
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	45,901,977	19,971,729
	<hr/>	<hr/>
Fund Balances:		
Restricted	-	21,366
Unassigned	(5,978,879)	-
	<hr/>	<hr/>
Total Liabilities and Fund Balance	\$ 39,923,098	\$ 19,993,095
	<hr/> <hr/>	<hr/> <hr/>

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

	<u>Fund 5320100000</u>	<u>Fund 442300000</u>
Revenues:		
Federal grant	\$ 686,047,441	\$ -
Other income	2,131,800	-
	<hr/>	<hr/>
Total Revenues	688,179,241	-
	<hr/>	<hr/>
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	-
	<hr/>	<hr/>
Total Expenditures	694,269,385	212,272,083
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Total Financing Sources (Uses)	(1,599,809)	229,697,111
	<hr/>	<hr/>
Total Expenditures and Financing Sources (Uses)	(7,689,953)	17,425,028
	<hr/>	<hr/>
Net Change in Fund Balances	(7,689,953)	17,425,028
	<hr/>	<hr/>
Fund Balances, Beginning of Year	1,711,074	(17,403,662)
	<hr/>	<hr/>
Fund Balances, End of Year	\$ (5,978,879)	\$ 21,366
	<hr/> <hr/>	<hr/> <hr/>

**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

<u>Description</u>	<u>Transfers In</u>	<u>Transfers Out</u>
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

<u>Description</u>	<u>Transfers In</u>	<u>Transfers Out</u>
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>\$ 7,543,663</u>
Due to Other Governments	<u>\$ 21,998,311</u>
Due to Other State Funds	<u>\$ 469,803</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 cursive script that reads "CliftonLarsonAllen LLP".

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	The former Director of Fiscal Management in OFP overrode MDE's accounting procedures in order to cover a shortfall of available funds for the 21 st Century program. MDE's procedures and internal controls were inadequate to prevent and/or detect the override; as timely reconciliation of 21 st Century and Title I's expenditures, cash receipts and available funding may have disclosed the override in a timely manner.
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 442300000 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 began 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 5320100000 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