

*O*versight

*R*eport



QUALITY CONTROL REVIEW OF OFFICE  
OF THE STATE AUDITOR  
MISSISSIPPI STATE UNIVERSITY  
FISCAL YEAR ENDED JUNE 30, 1996

Report Number PO 98-6-009

April 10, 1998

Office of the Inspector General  
Department of Defense

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### **Acronyms**

GAS	Government Auditing Standards
OMB	Office of Management and Budget

April 7, 1998

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Office of the State Auditor  
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SUBJECT: Quality Control Review of Office of the State Auditor  
Mississippi State University  
Fiscal Year Ended June 30, 1996  
Report No. PO98-6-009 (Project No. 8OA-9008.02)

## **Introduction**

We are providing this report for your review and comment. Your office performed the single audit for Mississippi State University (University), Mississippi State, Mississippi, for the fiscal year ended June 30, 1996. The audit is required by the Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." The University reported total Federal expenditures of \$80,424,228 for the fiscal year ended June 30, 1996, representing \$4,100,291 for the Department of Defense and \$76,323,937 for other Federal agencies.

The Office of the State Auditor issued its OMB Circular A-133 audit report on August 29, 1997. The auditors identified 18 reportable conditions of which 2 are also considered to be material weaknesses. The auditors also reported two instances of noncompliance with specific requirements and one instance of noncompliance with state laws and regulations, but questioned no costs. The auditors issued an unqualified opinion on the financial statements, Schedule of Federal Financial Assistance, and compliance with specific requirements applicable to major programs.

The auditors issued positive and negative assurance on compliance with general requirements. Positive assurance means that, with respect to the items tested, the results of the auditors' procedures showed no material instances of noncompliance. Negative assurance means that, with respect to the items not tested, nothing came to the

auditors' attention that caused them to believe that the University had not complied in all material respects. The auditors also obtained an understanding of the internal controls related to the financial statements and Federal awards. The audit report describes the auditors' scope of work in obtaining that understanding and in assessing control risk. The report on Federal awards further describes the significant internal controls or control structure including the controls that provide reasonable assurance that Federal awards are being managed in compliance with applicable laws and regulations.

## **Quality Control Review Results**

The working papers supporting the OMB Circular A-133 audit do not meet the applicable guidance and regulatory requirements in the Circular, its related Compliance Supplement, Government Auditing Standards, Generally Accepted Auditing Standards, and the provisions of the Federal award agreements.

## **Material Findings**

**Inadequate Working Paper Documentation.** Without detailed, oral explanations, the working papers that support the audit of Federal awards do not adequately document the work performed and the conclusions reached in accordance with OMB Circular A-133, Attachment, Paragraph 12a; Government Auditing Standards 4.35 - 4.37.b; and Codification of Statements on Auditing Standards, AU Section 339.05, Content of Working Papers. In general, the auditors must document the working papers so that an experienced auditor having no previous connection with the audit could ascertain from them the evidence that supports the auditors' significant conclusions and judgments. The auditors were negligent in performing applicable standards of field work because they perform the same audit annually, and they are familiar with it. The audit also lacked adequate supervisory review. Without the proper working paper documentation, a reviewer cannot determine what and how much was audited, whether the work stated in the audit report was performed, and whether enough auditing was done to support the opinion on compliance. Specifically, the working papers do not document:

- descriptive (nongeneric) headings or titles;
- a purpose statement;
- the overall conclusion for the awards that were tested individually;
- the applicable general or specific requirements that were tested for each award;

- the auditors' conclusions for the expenditure testing that was performed for each award;
- explanations for the calculations that were performed to support an audit of the matching requirements on the Mississippi Cooperative Extension Service award;
- the attributes that were tested to support a review of subrecipient monitoring in accordance with the OMB Circular A-133 Compliance Supplement for the Mississippi Cooperative Extension Service and Agency for International Development ("Collaborative Agriculture Support System") awards;
- the attributes that were tested on the expenditures for the Mississippi Cooperative Extension Service, Department of Agriculture ("Improving Production Efficiency in Agriculture"), and the Department of Energy ("Diagnostic Instrumentation & Analysis Laboratory") awards;
- the laws and regulations supporting the attributes that were tested on the expenditures for the Department of Agriculture Grant #CSRS93-34311-8595 and DoD Naval Research Laboratory awards; and
- a reconciliation between the initial sample size and the final sample size.

**Inadequate Supervisory Review.** The State Auditors have performed the audit of the University for many years and are familiar with the required audit procedures. However, that familiarity resulted in management reviewing and accepting working papers supporting the audit of Federal awards when the working papers do not meet the requirements of OMB Circular A-133, Government Auditing Standards, and Codification of Statements on Auditing Standards for working paper documentation.

The Government Auditing Standards incorporate Codification of Statements on Auditing Standards Section 230.02, "Due Care in the Performance of Work" which states that exercising ". . . due care requires critical review at every level of supervision of the work done and the judgment exercised by those assisting in the audit." Without adequate management review, no assurance exists that the work was performed in accordance with the Government Auditing Standards. Therefore, we could not determine whether the work stated in the audit report was performed or whether enough work was performed to support the opinion on compliance.

## **Immaterial Finding**

The audit engagement letter used is a State of Mississippi generated document that is generic for all audits. It did not include the following engagement letter elements, which were statements regarding: (1) the financial statements to be audited; (2) the reports to be prepared; and (3) that representatives of the cognizant agency (or its designee), other Government audit staff, and the General Accounting Office shall have access to the audit working papers upon request. The information allows the reviewer to understand the auditors' responsibilities for performing the particular audit.

## **Recommendations for Corrective Action**

We recommend that the Office of the State Auditor:

1. Require all auditors to support all single audit reports with adequate documentation in the working papers, properly cross-reference all single audit reports to supporting working papers, and subject all single audit reports to adequate supervisory review.
2. Design internal quality control reviews for compliance with all auditing applicable standards and requirements for single audits.
3. Evaluate the adequacy of training for auditors and supervisors on working paper preparation and review.
4. Include in all engagement letters related to single audit work the appropriate statements.

## **Quality Control Review Objective**

The objective of a quality control review is to ensure that the audit was conducted in accordance with applicable standards and meets the auditing requirements of the OMB Circular A-133. As a Federal funding agency for the University, we conducted a quality control review of the audit working papers. We focused our review on the following qualitative aspects of the audit: due professional care, planning, supervision, independence, quality control, internal controls, substantive testing, general and specific compliance testing, and the Schedule of Federal Awards.

We reviewed the report on the most recent peer review dated April 22, 1997, performed by the National State Auditors Association. The peer review found that the Office of the State Auditor met the objectives of the quality control review standards established by National State Auditors Association and that the standards were being complied with during the fiscal year ended March 31, 1994. However, the National State Auditors Association commented on the need to consistently document the

planning and evaluation of audit samples in accordance with the Codification of Statements on Auditing Standards, AU Section 350.

## **Scope and Methodology**

We used the 1991 edition of the Uniform Quality Control Guide for Single Audits (the Guide), which was approved by the President's Council on Integrity and Efficiency as guidance for performing the quality control review procedures. The Guide is organized by the general and field work audit standards and the required elements of a single audit. The Guide is further divided into the substantive work performed during the audit of the financial statements and the specific program compliance testing for major programs. In addition, we supplemented the Guide to include additional review of transaction testing.

Our review was conducted from January 26 through 29, 1998. We limited the scope of our quality control review to the audit working papers covering areas related the University's financial statements, research and development programs, and Federal appropriations.

## **Results of Prior Quality Control Reviews**

We have not performed quality control reviews of other organizations under the cognizance of the Office of the State Auditor, Mississippi.

## **Background**

The Inspector General Act of 1978, Public Law 95-452, prescribes the duties and responsibilities of that office. In implementing those responsibilities, the Inspector General is required to "take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General."

The Single Audit Act of 1984 (Public Law 98-502) was intended to improve the financial management of state and local governments whose total annual expenditures are \$100,000 or more with respect to Federal financial assistance programs; establish uniform requirements for audits of Federal financial assistance; promote efficient and effective use of audit resources; and ensure that Federal departments and agencies rely on and use the audit work done under the Act, to the maximum extent practicable.

The Single Audit Act Amendments of 1996, based on 12 years of experience under the 1984 Act, are intended to strengthen the usefulness of single audits by increasing the

audit threshold from \$100,000 to \$300,000 with respect to Federal financial assistance programs before an audit is required under the Act; by selecting programs to be audited on the basis of risk assessment rather than the amount of funds involved; and by improving the contents and timeliness of single audits. The Amendments also bring nonprofit organizations, previously covered by similar requirements under the OMB Circular A-133, under the Single Audit Act.

The OMB Circular A-133 establishes the Federal audit and reporting requirements for nonprofit and educational institutions whose Federal awards are or exceed \$100,000. The Circular provides that an audit made in accordance with the Circular shall be in lieu of any financial audit required under individual Federal awards. An agency must rely on the audit to the extent that it provides the information and assurances that an agency needs to carry out its overall responsibilities. The coordinated audit approach provides for the independent public accountant, Federal auditor, and other non-Federal auditors to consider each other's work in determining the nature, timing, and extent of their respective audit procedures. The Circular also requires that the cognizant agency obtain or conduct quality control reviews of selected audits made by non-Federal auditors and provide the results, when appropriate, to other interested organizations. The revised Circular was issued June 30, 1997, to incorporate the changes in the Single Audit Act Amendments of 1996. Its provisions apply to audits of fiscal years beginning after June 30, 1996.

## **Discussion of Results**

During our quality control review, we reviewed and took no exception to the working papers supporting the following reports and schedules.

**Independent Auditor's Report (Including Opinion on Schedule of Federal Financial Assistance).** The auditor is required to obtain reasonable assurance about whether the financial statements are free of material misstatement. The auditor is also required to subject the Schedule of Federal Financial Assistance to the auditing procedures applicable to the audit of the financial statements and to ensure that the amounts are fairly stated in relation to the basic financial statements. We reviewed the audit programs and the testing of evidential matter to determine whether testing was sufficient based on assessment of control risk to warrant the conclusion reached and whether the working papers supported the conclusion.

**Schedule of Federal Financial Assistance.** The recipient is responsible for creating the Schedule of Federal Financial Assistance. The auditor is required to audit the information in the Schedule and to ensure that it identifies major programs, as defined by OMB Circular A-133, and total expenditures for each program. We reviewed the audit programs for the appropriate procedures, reviewed a selected number of footings/cross-footings, and traced some of the amounts to the Subsidiary Ledger and/or Trial Balance.

**Report on Internal Control.** The auditor is required to obtain an understanding of the internal control structure that is sufficient to plan the audit, to assess control risk for the assertions embodied in the financial statements, and to determine whether the auditor intends to place reliance on the internal control structure. The auditor must perform tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing and detecting material noncompliance, review the system for monitoring subrecipients and obtaining and acting on subrecipient audit reports, and determine whether controls are effective to ensure that direct and indirect costs are computed and billed in accordance with requirements in the compliance supplement. We reviewed the Office of the State Auditor audit programs for the appropriate procedures, the working paper documentation, the test of controls performed, and the substantive testing performed and we reevaluated selected internal control items.

**Compliance Report on Major Federal Financial Assistance Programs.** The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. The specific requirements applicable to research and development programs include types of services allowed or unallowed; eligibility; matching, level of effort, and/or earmarking requirements; special reporting requirements; special tests and provisions; claims for advances or reimbursements; monitoring subrecipients; cost allocation; and amounts claimed or used for matching. We reviewed the audit program for the appropriate procedures, compared the audit program steps to those in the Compliance Supplement to make sure that all areas were audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

**Management Report.** The auditor consolidated the following reports within a single management report:

**Laws and Regulations.** The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on the determination of financial statement amounts. We reviewed the audit program for the appropriate procedures, the working paper documentation, its support, and the compliance tests performed.

**Compliance With General Requirements.** The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. General requirements are national policies that could have a material effect on the recipient's financial statements including those prepared for Federal programs. Those requirements are political activity, the Davis-Bacon Act, civil rights, cash management, Federal financial reports, allowable costs/cost principles, the Drug-Free Workplace Act, and administrative requirements. The auditors' procedures were limited to those prescribed in the OMB Compliance Supplement for "Audits of Institutions of Higher Learning and Other Non-

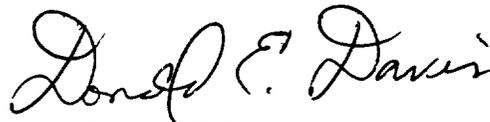
Profit Institutions.” We reviewed the audit program for the appropriate procedures, compared the audit program steps to those in the Compliance Supplement to make sure that all areas were audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

**Compliance With Specific Requirements for Nonmajor Programs.** The auditor is required to issue a report on nonmajor programs that provides a statement of positive assurance on those items that were tested for compliance and negative assurance on those items not tested. If the auditor has not selected any nonmajor program transactions or if the entity has no nonmajor programs, no report is required. We ensure that, when the auditor had selected such transactions, they were tested for compliance with specific requirements that apply to the individual transactions.

**Schedule of Findings and Recommendations.** The auditor is required to report all instances of material noncompliance in the audit report. We reconciled the findings in the working papers to the audit report to make sure that the report includes all findings identified in the working papers and that the findings are properly supported. A complete listing of all the immaterial instances of noncompliance are in Enclosure 1 of this report.

## **Comments**

Because this report contains findings or recommendations, written comments are required by May 15, 1998. We appreciate the courtesies extended during the review. If you have questions on this report, please contact Mrs. Barbara Smolenyak, Program Director, at (703) 604-8761. See Enclosure 2 for the report distribution.



Donald E. Davis  
Deputy Assistant Inspector General  
Audit Policy and Oversight Directorate

Enclosures

**Mississippi State University  
Fiscal Year Ended June 30, 1996**

**Schedule Of Findings and Recommendations**

<u>Finding No</u>	<u>Page(s)</u>	<u>Description</u>	<u>Resolution Agency</u>
<b>Material Weaknesses</b>			
1	51	Equipment <sup>1</sup>	HHS <sup>2</sup>
2	51	Accounts Payable Liability <sup>1</sup>	HHS <sup>2</sup>
<b>Reportable Conditions</b>			
3	51	Deferred Tuition & Fees <sup>1</sup>	Dept. of Education
4	51	Housing Deposits	Dept. of Education
5	52	Public Employees' Retirement System Reconciliation	HHS <sup>2</sup>
6	52	Cash Examination	HHS <sup>2</sup>
7	52	Expenditures Examination	HHS <sup>2</sup>
8	53	Accounts Receivable Testing	HHS <sup>2</sup>
9	53	Travel Advances	HHS <sup>2</sup>
10	53-54	EDP Policies & Procedures	HHS <sup>2</sup>
11	54	Tape Library Damage	HHS <sup>2</sup>
12	54	Listing of Items Stored Off-Site	HHS <sup>2</sup>
13	54	Written Disaster Recovery Plan	HHS <sup>2</sup>
14	55	Document Changes to EDP Data	HHS <sup>2</sup>
15	55	Quality Assurance Function	HHS <sup>2</sup>
16	55	Internet Fire Wall System	HHS <sup>2</sup>
<b>Application Controls</b>			
17	56	Segregation of Duties for Student A/R	HHS <sup>2</sup>
18	56	Security Over Cashier ID Numbers	HHS <sup>2</sup>
<b>Specific Compliance with Major Federal Financial Assistance Programs</b>			
1	56	Financial Aid	Dept. of Education
2	56-57	Discrepancies in FISAP Report <sup>1</sup>	Dept. of Education
<b>State Laws and Regulation</b>			
---	57	Institutional Fund Transfer	Office of State Auditor

<sup>1</sup>Repeat finding

<sup>2</sup>Department of Health and Human Services

**Mississippi State University  
Fiscal Year Ended June 30, 1996**

**Schedule Of Findings and Recommendations**

**Acronyms**

<b>EDP</b>	<b>Electronic Data Processing</b>
<b>ID</b>	<b>Identification</b>
<b>A/R</b>	<b>Accounts Receivable</b>
<b>FISAP</b>	<b>Fiscal Operations Report and Application</b>

**Mississippi State University  
Fiscal Year Ended June 30, 1996**

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Fiscal Year Ended June 30, 1996**

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**Mississippi State University  
Fiscal Year Ended June 30, 1996**

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