#495

Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER)

Report to
the Mississippi Legislature

A Review of the Operations of the Department of Audit and the Department's Role in Fiscal Oversight and Accountability

The Department of Audit focuses necessary resources to ensure that the Comprehensive Annual Financial Report audit is conducted in accordance with generally accepted government auditing standards and completed in a timely manner. Also, the department ensures that county and education audits are performed according to standards and in a timely manner. However, low staffing levels and high turnover rates in the department's Financial and Compliance Audit Division have resulted in a decreased experience level of audit staff and reduced institutional knowledge used in forming auditor judgment. The department has had to rely to a significant degree on contract certified public accountants to accomplish its audit work.

With regard to its responsibilities to make inventories of all fixed assets, the department accomplishes its statutory responsibilities for state agencies and universities. However, the department conducts unnecessary fixed asset audits for counties and public school districts, audits which are duplicative of inventory assessments made by auditors during financial audits.

Prior to the 2006-07 school year, the Department of Audit fulfilled its statutory responsibilities for verifying that the public school districts submitted accurate student attendance data to the Department of Education. However, with the launch of the Mississippi Student Information System on August 1, 2006, the department has not adequately planned its compliance audits of student attendance data, which could increase the risk of districts receiving the incorrect amount of funding.

As required by state law, the department has established generally accepted accounting principles for public offices of the state and its subdivisions and provides assistance and training to personnel of state and local government regarding such. However, the department does not ensure that municipalities have annual audits conducted and submitted to the department for review and filing. In addition, the department does not collect fees for providing training courses.

December 20, 2006

PEER: The Mississippi Legislature's Oversight Agency

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A joint committee, the PEER Committee is composed of seven members of the House of Representatives appointed by the Speaker and seven members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of four Representatives and four Senators voting in the affirmative.

Mississippi's constitution gives the Legislature broad power to conduct examinations and investigations. PEER is authorized by law to review any public entity, including contractors supported in whole or in part by public funds, and to address any issues that may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

PEER provides a variety of services to the Legislature, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, special investigations, briefings to individual legislators, testimony, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of the PEER Committee, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. The PEER Committee releases reports to the Legislature, Governor, Lieutenant Governor, and the agency examined.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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The Mississippi Legislature

Joint Committee on Performance Evaluation and Expenditure Review

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Honorable Haley Barbour, Governor
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On December 20, 2006, the PEER Committee authorized release of the report entitled **A Review of the Operations of the Department of Audit and the Department's Role in Fiscal Oversight and Accountability.**

Senator Richard White, Chair

This report does not recommend increased funding or additional staff.

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A Review of the Operations of the Department of Audit and the Department's Role in Fiscal Oversight and Accountability

Executive Summary

Introduction

MISSISSIPPI CONSTITUTION Article 5, Section 134, creates the elected position of Auditor of Public Accounts. (This position is now commonly referred to as the "State Auditor.") MISS. CODE ANN. § 7-7-201 (1972) establishes the Department of Audit under the supervision and direction of the State Auditor. By state statute, the Department of Audit and its divisions accomplish all legal responsibilities assigned to the State Auditor. Therefore, for purposes of this report, PEER uses the term "Department of Audit" rather than "Office of the State Auditor" when referring to the entity responsible for performing the fiscal oversight and accountability functions of the State Auditor.

The purpose of this review was to determine whether the current operations of the Department of Audit address the state's overall fiscal oversight and accountability needs.

Conclusions

The Department of Audit consists of the State Auditor's executive support staff and eight divisions:

- Financial and Compliance Audit Division;
- Property Audit Division;
- Average Daily Attendance Audit Division;
- Performance Audit Division;
- Investigative Division;
- Technical Assistance Division;

- Administrative Services Division; and,
- Information Technology Division.

PEER analyzed the mission and statutory responsibilities of each division, the fiscal oversight and accountability risks addressed by each division, and how each division's operations address the risks assigned.

Financial and Compliance Audit Division

The cornerstone of the state's fiscal oversight and accountability system is the state's financial statements—the Comprehensive Annual Financial Report (CAFR) —and an independent audit of the statements. PEER concludes that the department focuses necessary resources to ensure that the CAFR audit is conducted in accordance with generally accepted government auditing standards and completed in a timely manner. Also, PEER notes that the department appropriately focuses necessary resources to ensure that county and education audits are performed according to standards and in a timely manner.

Although the department is appropriately conducting its CAFR, county, and education audits, some significant factors affect the department's operations and potentially impact the state's fiscal oversight and accountability system. For example, due to the auditing requirements associated with and resources necessary to conduct the annual CAFR audit, the department does not perform individual audits of agencies not material to the CAFR, some of which are required to be audited annually by state law. The department performs limited internal control and compliance reviews on these agencies as time permits. In addition, low staffing levels and high turnover rates in the department's Financial and Compliance Audit Division have resulted in a decreased experience level of audit staff and reduced institutional knowledge used in forming auditor judgment. Due to staffing shortages, the department has relied to a significant degree on contract certified public accountants to accomplish its audit work. An increase in the statutory limit of the amount of fees that the department could charge for audits would generate additional special fund revenue that could be used to retain existing experienced staff and hire additional auditors, thereby decreasing the department's reliance on contract auditors.

Property Audit Division

With regard to its responsibilities to make inventories of all fixed assets, PEER concludes that the department accomplishes its statutory responsibilities for state agencies and universities. However, the department is conducting unnecessary fixed asset audits for counties and public school districts, audits which are duplicative of inventory assessments made by auditors during financial audits. The department accomplishes its responsibilities related to verifying that state and local government entities comply with statutory motor vehicle identification requirements. The duplicative local government fixed asset audits and the vehicle identification responsibilities have significantly reduced the department's resources with which to perform state agency and university fixed asset audits and vehicle identification responsibilities in a timely manner. These tasks also use state resources to accomplish local government responsibilities.

Average Daily Attendance Audit Division

Prior to the 2006-07 school year, the Department of Audit fulfilled its statutory responsibilities for verifying that the public school districts submitted accurate student attendance data to the Mississippi Department of Education. However, with the launch of the Mississippi Student Information System on August 1, 2006, the department has not adequately planned its compliance audits of student attendance data, which could increase the risk of districts receiving the incorrect amount of funding.

Performance Audit Division

The department's Performance Audit Division produces statutorily mandated reports that the State Auditor assigns to it for completion. Further, the division performs assistance work at the request of legislators and provides internal assistance to other operating divisions of the department.

Investigative Division

With regard to its investigative function, the department has established an organizational concept, staffing, and case management system to investigate and resolve alleged violations of state fiscal oversight and accountability laws and to recover lost public funds or property. For fiscal years 2002 through 2006, the department made 265 repayment demands for $7,672,951 and collected $5,134,136.

Technical Assistance Division

As required by state law, the department has established generally accepted accounting principles for public offices of the state and its subdivisions and provides assistance and training to personnel of state and local government regarding such. However, the department does not ensure that municipalities have annual audits conducted and submitted to the department for review and filing. In addition, the department does not collect fees for providing training courses.

Support Divisions: Administrative Services and Information Technologies

Duties of the department's support divisions primarily involve general office administration functions typical of most state agencies. The Department of Audit's Administrative Services Division performs office management functions, authorizes cafeteria fringe benefits plans, and coordinates work of auditors contracted to audit the department. The Information Technology Division functions as a technical resource for the department.

The Department's Receipt of Statutorily Required Reports

PEER notes that the Department of Audit is burdened by statutory requirements that certain reports or documents be filed with the department by local governmental entities. (Recommendation 15, page xvi of this summary, lists these statutorily required reports.) While maintaining these reports may not consume a great deal of staff time, it appears to be unnecessary and does take some time and space that could be allocated to other tasks. Additionally, state law also mandates a few reports that contribute little to the efficient and effective governance and control of state resources. Such reports also consume some of the department's resources that could be deployed on other activities.

Recommendations

1. The Department of Audit should become a third party in all contracts between education entities and outside CPA firms in order to allow the department to monitor the timeliness of work by outside CPA firms.

2. The Legislature should grant the Department of Audit the authority in law to establish late penalties in contracts between state and local entities and outside CPA firms, to be imposed if audit reports are not completed by specified due dates. The Department of Audit should also have the authority to waive late penalties if, in the opinion of the department, circumstances beyond the control of the outside CPA firm prevented the audit report from being completed by the specified due dates.

3. The Department of Audit should be granted in law the authority to prohibit for a reasonable period of time outside CPA firms from soliciting contracts for the performance of audits of state and local entities if an outside CPA firm has demonstrated a pattern of chronic tardiness in delivering audit reports by specified due dates.

4. The Department of Audit should work with the State Personnel Board to develop a unique job classification and salary schedule that is equitable to similar positions in private industry for audit staff in the Financial and Compliance Audit Division.

5. The Legislature should amend MISS. CODE ANN. §7-7-213 (1972) to allow the Department of Audit to charge state and local entities an audit rate equal to actual costs, as is done in conjunction with the federal Single Audit.

6. In the future, when the Legislature finds it necessary to bring forward CODE sections requiring individual agency audits, the Legislature should strike audit requirements for individual agencies or entities. Further, the Legislature should not require audits of specific agencies and entities in the future.

7. The Department of Audit should perform Limited Internal Control and Compliance reviews on agencies not material to CAFR on a three-year cycle.

8. The Department of Audit should not conduct routine fixed asset audits of the counties and public school districts except when the local governing

boards request an audit due to inventory control problems. This would allow the department's Property Audit Division to focus on fulfilling its statutory responsibility for the property accounts of state agencies and universities, thereby increasing the number of annual property audits conducted of these entities and reducing the amount of time between audits.

9. The Legislature should amend MISS. CODE ANN. Section 25-1-87 (1972):

    -- to require the Department of Audit to check for compliance with vehicle marking requirements for state agencies and universities as part of fixed asset audits for these entities;

    -- to require the Department of Audit to revise its fixed asset auditing manuals for cities, counties, and public school districts to require these local entities to file a "sworn and attested to" statement of compliance with the vehicle marking requirements for government-owned vehicles with the State Tax Commission. This statement should include an inventory of the county vehicles with the same information as the state-owned vehicle master inventory system of the Department of Audit;

    -- to require the annual financial audits of local government entities to address the entities' compliance with vehicle marking requirements, including documentation of approval for unmarked vehicles.

      If an entity is not in compliance with the vehicle marking laws, the financial auditor should notify the State Tax Commission of this noncompliance so that the commission can act to stop the distribution of certain tax collections, as authorized by MISS. CODE ANN. Section 25-1-87 (1972); and,

    -- to require that documentation of gubernatorial approval for unmarked state agency and university vehicles be sent to the new Fleet Management Division of the Department of Finance and Administration rather than the Department of Audit.

10. In auditing the Mississippi Student Information System (MSIS), the Department of Audit's Average Daily Attendance Audit Division should:

    -- prepare and use a standardized audit plan for annual audits of the public school districts and individual schools. This would help to ensure that the ADA auditors accomplish these critical audits with standard objectives, criteria, documentation, methodology, and practices in order to verify the validity and reliability of the reported information;

    -- include reviewing and sampling, if necessary, of the school districts' annual mandatory fixed asset audit report and supporting documentation; and,

    -- not conduct annual inventory audits of the fixed asset accounts of school districts, including vehicles.

11. The Legislature should amend MISS. CODE ANN. Section 25-1-77 and Section 31-7-13 (1972) to delete the requirement that the State Auditor conduct audits of vehicle purchases and produce reports on agency emergency purchases.

12. The Department of Audit should maintain a record of all referral requests for audits or investigations, the approval or disapproval action of the State Auditor or his Deputy State Auditor, and the documentation notifying the referrer of the decision.

13. The Department of Audit should use the authority provided in MISS. CODE ANN. Section 7-7-218 (1972) and contract with certified public accountants to audit municipalities that fail to have annual audits performed and submitted to the department as required by state law. As provided for in this CODE section, any municipality for which the department must arrange an annual audit should bear the costs of such audit.

14. As provided for in MISS. CODE ANN. Section 19-3-77 (1972), the Department of Audit should establish and charge reasonable fees for providing training programs for personnel of state and local governmental entities. At a minimum, the department should recoup all or a portion of the costs associated with providing professional certification courses mandated by state law for certain county employees.

15. The Legislature should amend the following sections of state law to delete the requirements that entities automatically provide copies of certain reports, agreements, or resolutions to the Department of Audit.

- Section 17-13-11 (4): Governmental units to file interlocal agreements
- Section 21-33-47: Municipalities to file tax levy resolutions
- Section 27-1-37: Copy of report of annual enumeration of all ex-confederate soldiers and widows of deceased confederate soldiers
- Section 27-31-31 (2): Municipalities to file ad valorem tax exemptions for structures within the central business district
- Section 27-31-109: Municipalities and counties to file ad valorem tax exemptions
- Section 27-45-1: Copy of report of county land redemption settlements
- Section 27-51-11: Copy of report for each county road and bridge privilege license
- Section 41-73-71: Annual reports of Mississippi Hospital Equipment and Facilities Authority
- Section 45-3-25: Copy of patrolman's abstract of the court record
- Section 47-5-30 (3): Strategic plan on the operations of the state's correctional system
- Section 49-2-29 (3): Strategic plan on the operations of the Department of Environmental Quality
- Section 51-29-97: Annual sworn statements of financial condition from drainage districts
- Section 57-64-23 (4): Intergovernmental regional economic development agreements to be filed
- Section 63-9-21 (6): Copy of uniform traffic tickets
- Section 65-18-17: Notification of withdrawal of local system road funds from a county by the State Aid Engineer
- Section 65-9-25: Notification of withdrawal of state aid road funds from a county by the State Aid Engineer

- Section 69-21-119 (3): Board of Agricultural Aviation annual financial statements and any proposed license fee adjustments
- Section 77-15-3: Local natural gas districts' annual financial reports
- Section 77-5-253: Electric power associations' annual financial reports and compliance audits

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A Review of the Operations of the Department of Audit and the Department's Role in Fiscal Oversight and Accountability

Introduction

Authority

In response to a legislative request, the PEER Committee conducted an operational review of the Department of Audit. The Committee acted in accordance with MISS. CODE ANN. Section 5-3-51 et seq. (1972).

Purpose and Scope

MISSISSIPPI CONSTITUTION Article 5, Section 134, creates the elected position of Auditor of Public Accounts. (This position is now commonly referred to as the "State Auditor.") MISS. CODE ANN. § 7-7-201 (1972) establishes the Department of Audit under the supervision and direction of the State Auditor. By state statute, the Department of Audit and its divisions accomplish all legal responsibilities assigned to the State Auditor. Therefore, for purposes of this report, PEER uses the term "Department of Audit" rather than "Office of the State Auditor" when referring to the entity responsible for performing the fiscal oversight and accountability functions of the State Auditor.

The purpose of this review was to determine whether the current operations of the Department of Audit address the state's overall fiscal oversight and accountability needs.

Although MISS. CODE ANN. Section 7-7-216 (1972) states that the Legislature shall receive bids from an independent, certified public accounting firm for an opinion and legal compliance audit of the Office of the State Auditor no less than once during each four-year term of the State Auditor, the scope of PEER's review does not include an opinion and legal compliance audit of the Department of Audit. Because the Legislature has not appropriated funds for an opinion and legal compliance audit of the Department of Audit, the State Auditor has contracted with Grantham, Poole, Randall, Reitano, Arrington & Cunningham, a certified public accounting firm located in Jackson, Mississippi, to conduct such an audit.

Method

In conducting this project, PEER:

- reviewed relevant sections of state law regarding the Department of Audit's statutory responsibilities;
- interviewed staff of the department; and,
- reviewed financial and programmatic records of the department.

The State's Fiscal Oversight and Accountability Structure

The Department of Audit's role in the state's fiscal oversight and accountability system is of paramount importance because various users rely upon audited financial statements to make economic and programmatic decisions.

As with any sole proprietorship, partnership, or corporation, Mississippi state and local government must have a fiscal oversight and accountability system in which public funds are collected, expended, and accounted for in an accurate and legal manner. State law, in MISS. CODE ANN. § 7-7-1 et seq. and MISS. CODE ANN. § 7-7-201, establishes the Department of Finance and Administration (DFA) and the Department of Audit ("State Auditor") as the primary agencies in Mississippi's fiscal oversight and accountability structure. In general terms, DFA serves as the state's general accounting office and prepares the state's financial statements, known as the Comprehensive Annual Financial Report (see page 14). The Department of Audit audits the state's financial statements and offers an opinion as to whether they accurately reflect the financial position of the state. The role of the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER) within the state's accountability structure is that of legislative oversight; the committee conducts performance evaluations, investigations, and expenditure reviews for the Legislature (see CODE Section 5-3-51 et seq.).

The Department of Audit's role in the state's fiscal oversight and accountability system is of paramount importance because various users rely upon audited financial statements to make economic and programmatic decisions. For example, entity managers can use the Department of Audit's work to review their performance and make decisions affecting future directions of their entities. Bondholders and potential bondholders can assess risk and judge the state's ability to repay indebtedness. Financial institutions can determine whether to make loans to an entity. Regulatory agencies can determine whether regulatory action is necessary to protect the public. Vendors can assess the credit risk of the state or an entity.

In a 1984 Supreme Court decision, Chief Justice Warren Burger described the independent auditor's role, which the Department of Audit fulfills for the State of Mississippi, as a "public watchdog function" demanding "complete fidelity to the public trust." The State Auditor, in 1997, adopted the following as the mission statement for his office's (i.e., the Department of Audit's) operations:

The mission of the Office of the State Auditor is to serve its customers and protect the public's trust by independently assessing state and local governmental and other entities to ensure that public funds are properly received, are legally, effectively, and efficiently spent and are accounted for and reported accurately.

The Department of Audit has identified and prioritized its customers to include:

1. citizens and taxpayers;
2. the legislative, executive and judicial branches of state government;
3. state and local governmental entities;
4. federal government; and,
5. other states.

The Department of Audit fulfills an independent auditor's role for the State of Mississippi.

Over the years, the Mississippi Legislature has enacted legislation to empower the Department of Audit to accomplish its mission of providing fiscal oversight and accountability for the state. While MISS. CODE ANN. § 7-7-211 (1972) is the most comprehensive statutory authority for the department, other CODE sections define the department's role in the state's fiscal oversight and accountability system. In conducting this review, PEER identified 238 provisions in state law that encompass the duties and responsibilities of the Department of Audit (see Appendix A, page 79). PEER analyzed the CODE sections and concluded that the Legislature enacted these sections to address particular "risks," but that some sections were of a higher importance and priority than others—i.e., the "risk" of the Department of Audit failing to accomplish certain higher-level statutory duties could affect the integrity of the state's fiscal oversight and accountability system. PEER then categorized the 238 CODE sections into four risk categories, as follows.

- ***Primary risk (Level 1)***: The failure of the Department of Audit to address this type of risk could result in inaccurate reporting of the financial condition of the state in material aspects and could result in injury to citizens of and investors in the state. An example of this type of risk would be failure to conduct an audit of the state's Comprehensive Annual Financial Report (CAFR), because such could negatively impact the state's standing in the financial markets and make borrowing funds more difficult.

- ***Secondary risk (Level 2)***: The failure of the Department of Audit to address this type of risk could result in inaccurate reporting of the financial condition of local governing authorities in material aspects and could result in injury to citizens of and investors in these authorities. Failure to address this type of risk might also result in the inaccurate reporting of a component of the financial condition of the state but would not result in injury to citizens of and investors of the state. An example of this type of risk would be failure to conduct audits of local governing authorities and municipalities, because such could result in citizens not receiving basic services and entities having difficulty in borrowing funds.

- ***Tertiary risk (Level 3)***: The failure of the Department of Audit to address this type of risk would not result in inaccurate reporting of the financial condition of the state in a material aspect or injury to citizens or and investors in Mississippi. However, it might result in a potential loss of improved effectiveness or efficiency of the state or local governing authorities. An example of this type of risk would be failure to develop uniform accounting or reporting procedures, because such could leave entities to their own devices and possibly result in a lack of disclosure of government operations.

- ***Immaterial risk (Level 4)***: The failure of the Department of Audit to address this type of risk would not affect the financial condition, effectiveness, or efficiency of the state or local governing authorities. These items are primarily of an administrative, recordkeeping or technical nature. An example of this type of risk would be failure to accomplish "housekeeping" responsibilities, such as the filing of certain reports or providing assistance to other entities. While fulfillment of such responsibilities is required by law, the failure to do so would not result in financial jeopardy to the state or to a local government.

While PEER acknowledges that all provisions listed in Appendix A have the full force and effect of law and should be adhered to by the department, this analysis attempts to focus on statutory provisions that are most relevant to the state's fiscal oversight and accountability system—i.e., are of a higher level of risk. This report assigns a level of risk to each of the responsibilities of the department and reviews operations of the department's divisions to address the "risks" embodied by the various CODE sections.

Background

Constitutional and Statutory Authority

MISS. CONST. art. 5, § 134, establishes the position of Auditor of Public Accounts ("State Auditor") to be elected for a four-year term. To be eligible for election, the State Auditor must be twenty-five years of age and a citizen of the state for five years. The State Auditor may be elected for successive terms and there are no limits on the number of terms an incumbent may serve. The state constitution does not prescribe other qualifications, such as holding a professional certification, for the State Auditor.

State law establishes the Department of Audit under the supervision of the State Auditor.

The Legislature has enacted legislation that provides the State Auditor with specific powers and duties. For example, MISS. CODE ANN. § 7-7-201 et seq. (1972) establishes the Department of Audit under the supervision of the State Auditor. These sections generally authorize the State Auditor to: identify and define generally accepted accounting principles; study managerial policies and methods; post-audit,[1] and in some cases pre-audit, governmental entities; investigate violations of state law; and, make written demands for the recovery of misspent public funds. In addition, MISS. CODE ANN. § 29-9-1 (1972) authorizes the State Auditor to require heads of state agencies to inventory all lands, buildings, equipment, furniture and other personal property. Also, MISS. CODE ANN. § 37-37-1 et seq. (1972) authorizes the State Auditor to employ examiners to determine the correctness and accuracy of all reports concerning the number of students enrolled in school districts.

Organizational Structure and Staffing

The Department of Audit consists of the State Auditor's executive support staff and eight divisions. For FY 2006, the Legislature authorized 165 full- and part-time employment positions for the department, of which 141

[1] *Post-audit* procedures measure the fairness of financial statements submitted by management as the financial position of an entity. *Pre-audit* procedures are performed on financial statements prior to management's compilation of final financial statements.

(85%) were filled and twenty-four (15%) remained vacant on June 30, 2006. Exhibit 1, page 9, details the duties of each division and the number of positions assigned to each division during FY 2006.

The Department of Audit has offices in Jackson, Grenada, and Ellisville, and is in the process of establishing an office in Hattiesburg to serve as headquarters for investigation of alleged fraud related to Hurricane Katrina rebuilding efforts.

MISS. CODE ANN. § 7-7-202 requires the State Auditor to keep the office of the department at the seat of government, but authorizes the establishment of satellite offices at other locations in the state. Presently, in addition to the central office in Jackson, the Department of Audit has offices located in Grenada (in north Mississippi) and Ellisville (in south Mississippi). The department is in the process establishing a satellite office in Hattiesburg to serve as headquarters for eleven department employees assigned to investigate alleged instances of fraud resulting from rebuilding efforts associated with Hurricane Katrina. (The department received a Community Development Block Grant in the amount of $1,918,375 from the Mississippi Development Authority to fund the positions for a two-year period.) The department's employees are assigned to work either from the central office, a satellite office, or their residences.

Funding and Expenditure Authority

The majority of the department's special funds are generated from fees charged to entities for services performed.

The Legislature appropriates general and special funds to support the operations of the Department of Audit. The majority of the department's special funds are generated from fees charged to entities for services performed. MISS. CODE ANN. § 7-7-213 (1972) authorizes the department to charge entities the actual cost of performing auditing or other services, not to exceed $100 per staff day. This section requires the department to notify the State Fiscal Officer of the failure by any unit of government to pay the charges imposed by the department. The State Fiscal Officer has the authority to notify the State Treasurer to withhold disbursements from the state treasury until the defaulting entity has paid the billed amounts. Section 7-7-213 also allows the department to recover the actual costs (with no limits imposed) of performing investigations to recoup funds misspent by employees or officials.

Exhibit 1: Duties of Divisions of the Department of Audit and Number of FY 2006 Authorized Positions (as of June 30, 2006)

Division	Duties	Number of Authorized Positions
Executive	Assists the State Auditor in directing and supervising activities of the office. Maintains the State Auditor's calendar. Schedules appointments and speaking engagements. Director of the Department of Audit coordinates and directs the actions of the office and acts as the State Auditor in the Auditor's absence.	6
Financial and Compliance Audit	Post-audits public entities. Prescribes or identifies accounting systems. Reviews auditee computer operations.	94
Property Audit	Conducts fixed asset audits in state agencies, universities, and counties. Maintains a master inventory of fixed assets for all state agencies and universities. Assures compliance with state statutes, regulations, and procedures in regard to fixed assets accountability.	8
Average Daily Attendance Audit	Verifies the validity and accuracy of the process and internal controls used for all student transactions in the public schools of Mississippi. Conducts fixed asset audits of the public schools.	12
Performance Audit	Conducts audits in order to evaluate selected operations of government. Makes recommendations to increase efficiency, effectiveness, and economy in government.	6
Investigative	Investigates alleged or suspected violations of state laws dealing with any state, county, or other public office in the purchase, sale or use of supplies, services, equipment or other property.	22
Technical Assistance	Provides accounting and legal compliance assistance to State Auditor staff and state and local officials and employees throughout Mississippi. Conducts training seminars for office personnel and local governments. Designs uniform accounting systems for local governments.	6
Administrative Services	Processes all invoices, travel vouchers, and purchase orders. Bills all entities for services rendered. Prepares and administers the budget. Procures all office equipment and supplies. Prepares payroll and performs accounting and personnel functions.	6
Information Technology	Provides technical support to the State Auditor staff. Conducts training seminars. Designs and installs information systems.	5
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SOURCE: Office of the State Auditor, *Policies and Procedures Manual* (December 2005), *2005 Annual Report* (June 2005), and State Auditor personnel records.

During FY 2006, the Department of Audit received $3,033,070 in special funds, as follows:

- $2,842,897--*Audit fees* (payments received for services provided by the department); and,

- $190,173--*Budget Contingency funds* (funds used by the Legislature to supplement general funds appropriated to agencies).

The department's audit fee collections were less than anticipated in FY 2006.

The Department of Audit actually received $1,399,931 less than the $4,433,001 in special funds appropriated to the department by the Legislature for FY 2006. The department's audit fee collections were less than anticipated. During FY 2006, the department also received budget escalation authority from the Department of Finance and Administration for the following federal funds:

- $217,079--*Homeland Security funds* (funds received for cyber security audits of selected state agencies to ensure the integrity of their information systems); and,

- $24,264--*Mississippi Emergency Management Agency grant* (reimbursements for Hurricane Katrina-related expenses).

As with most other state agencies, appropriation bills for the Department of Audit contain spending authority for six major objects of expenditures. As illustrated in Exhibit 2, page 11, the department's spending authority has remained relatively constant from FY 2004 through FY 2007, with a 3% decrease over the period.

Exhibit 2, page 11, presents the Department of Audit's appropriations and spending authority for fiscal years 2004 through 2007.

Audit Responsibilities

The department has financial reporting responsibilities—auditing, reviewing, recording, receiving, or investigating—for most Mississippi public entities.

According to its FY 2005 Annual Report, the Department of Audit has financial reporting responsibilities—auditing, reviewing, recording, receiving, or investigating—for most Mississippi public entities. Specifically, the department has jurisdiction over 118 state agencies, 295 municipalities, and eighty-two counties. Also, the department has responsibilities for certain special-purpose governmental entities, including fifteen community and junior colleges, eight universities, 150 school districts, and twenty-two district attorneys. In addition, the Legislature occasionally creates or financially supports entities for which it directs the department to exercise audit or oversight responsibilities.

Exhibit 2: Department of Audit's Appropriations and Spending Authority, FY 2004 through FY 2007

	FY 2004	FY 2005	FY 2006	FY 2007
Funding*:				
General Funds	$5,971,349	$5,722,582	$5,277,475	$6,036,065
Special Funds	4,280,271	4,169,337	$4,433,001	3,913,382
Total	$10,251,620	$9,891,919	$9,710,476	$9,949,447
Spending Authority:				
Salaries, Wages & Fringe Benefits	$8,436,183	$8,217,251	$8,069,542	$8,143,017
Travel & Subsistence	801,858	760,760	$722,591	$722,591
Contractual Services	877,456	811,974	811,375	959,715
Commodities	86,123	82,736	78,599	80,599
Capital Outlay-Equipment	50,000	16,615	26,615	42,468
Subsidies, Loans & Grants	0	2,583	1,754	1,057
Total	$10,251,620	$9,891,919	$9,710,476	$9,949,447
(% change from FY 2004 to FY 2007)				-3%

* In addition to general and special funds appropriated by the Legislature, the Office of the State Auditor, as allowed by state law, escalated its spending authority for fiscal years 2005, 2006, and 2007 to reflect the receipt of the following non-appropriated funds: FY 2007-$984,025 in Community Development Block Grant funds for Hurricane Katrina fraud detection; FYs 2005-2007, $600,000 in Department of Public Safety grant funds to conduct cyber security audits on selected state agencies to ensure the integrity of their information systems; and, FY 2006-$24,264 in reimbursements from the Mississippi Emergency Management Agency for Hurricane Katrina-related expenses.

SOURCE: PEER analysis of the Department of Audit's appropriation bills for FY 2004-FY 2007.

The Purpose of Auditing and How the Auditing Environment for Government Has Changed

Purpose of Auditing

Audits serve as a basis for an auditor's opinion regarding how well an assertion, such as the financial statements of an entity, complies with an identified set of standards, such as accounting standards.

In general, an audit's purpose is to gather and evaluate evidence that serves as a basis for an auditor's opinion regarding an assertion and how well that assertion complies with an identified set of standards. Further, an audit is not designed to prove the accuracy of the assertion, but that the assertion is reasonable.

An audit is not designed to prove the accuracy of an assertion, but that the assertion is reasonable.

For example, a corporation's management produces financial statements that are management's assertions of the corporation's financial position at a certain point in time and that the financial statements are prepared in compliance with generally accepted accounting principles (GAAP). An auditor gathers and evaluates evidence regarding those financial statements and renders an opinion regarding the reasonableness of those financial statements and whether the financial statements conform with GAAP. The auditor's opinion should not be construed as a statement that the financial statements are a totally accurate representation (down to the penny) of the financial position of the corporation, but rather that the financial statements present fairly, in all material respects, the financial position of the corporation. (See page 13 for a discussion of "materiality.") An audit is designed to provide assurance from an independent source (the auditor) that even if a completely accurate (down to the penny) financial statement were produced, it would not vary in so large an amount as to cause a reasonable person to change his or her view of the corporation.

Why Auditors Use Sampling

Sampling is one method used in an audit to gather sufficient, competent, evidential information to provide a reasonable basis for an auditor's opinion.

Auditors must follow generally accepted auditing standards when performing audits of for-profit entities and generally accepted government auditing standards, also known as Yellow Book standards, when auditing government entities. Within these standards, the third standard of fieldwork requires:

> *Sufficient, competent, evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.*

Auditors design samples to test and examine enough reliable and relevant information on which to base their opinion.

Due to the number of underlying documents supporting the assertions in the financial statements, it would be too expensive and too time consuming for auditors to review every piece of supporting information and render an opinion in a timely manner. Therefore, auditors design samples to test and examine enough reliable and relevant information on which to base their opinion and do not look at all information comprising the financial statements.

The Concept of Materiality in Auditing

Auditors use materiality in setting the depth and detail of an audit. An item is material if it would cause a reasonable person to change his or her opinion of the audited material.

Professional standards require auditors to consider materiality in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures. Under these standards, auditors are expected to design and perform an audit that provides reasonable assurance that *material* errors or irregularities have been found.

The Financial Accounting Standards Board defines *materiality* as:

> *The magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.*

Auditors are expected to design and perform an audit that provides reasonable assurance that *material* errors or irregularities have been found.

An item is material if it causes a reasonable person to change his or her opinion of the information or entity being audited. For example, a one-million-dollar error in the financial statements of the nation's largest retailer might not cause an investor to change his opinion of the company's performance. However, a one-billion-dollar error would likely cause a change in opinion. Audits are designed to provide a basis for an auditor's opinion that the information audited is free from material errors.

Auditors use a variety of factors in determining what constitutes a material amount. For example, an amount may be material to one person, but not material to another person. A controversial or complex transaction may be material because of its nature. In determining material amounts, auditors rely on professional judgment and industry standards.

The Comprehensive Annual Financial Report (CAFR) and the Department of Audit's Responsibilities Regarding the CAFR

Following changes in generally accepted accounting principles in the 1980s, Mississippi began issuing a Comprehensive Annual Financial Report (CAFR) as a presentation of the state's financial statements. The Department of Audit is responsible for auditing the CAFR in accordance with auditing industry standards.

During the 1980s, government organizations began preparing and reporting their fiscal activity through a report called the Comprehensive Annual Financial Report (CAFR), which is a presentation of a government entity's financial statements. In order to understand why the CAFR became the standard for reporting government activity and operations, one must understand the events and environment leading to the widespread expectance of a government reporting its fiscal position through a CAFR. Appendix B, page 117, describes the conditions leading to the creation of the CAFR within the auditing environment.

Mississippi's Move Toward Producing a CAFR

Changes in generally accepted accounting principles led to Mississippi's issuance of its first CAFR in 1986.

Through 1984, Mississippi's Department of Audit issued individual financial audit reports for each state agency. However, because of the changes discussed in Appendix B, generally accepted accounting principles (GAAP) began requiring a CAFR in 1984.

Through 1984, the Department of Audit issued individual financial audit reports for each state agency.

In 1984, the Department of Audit began a two-year process of converting the state's accounting system to comply with GAAP. The project was undertaken in accordance with MISS. CODE ANN. §7-7-211(a) (1972), which gave the department the duty and power to prescribe for the state and its subdivisions a system of accounting that was in conformity with GAAP.

State law now requires that the CAFR be prepared in accordance with GAAP and be audited by the Department of Audit in accordance with generally accepted auditing standards. Since 1986, the State of Mississippi has issued a CAFR each year.

To ensure that state financial statements were prepared in accordance with GAAP, the Legislature brought forward numerous auditing and reporting sections in the Administrative Reorganization Act of 1984. Included in these sections were MISS. CODE ANN. §27-104-5 (1972), which gave the State Fiscal Officer the power and responsibility to develop and implement an accounting system using GAAP, and MISS. CODE ANN. §7-7-45 (1972), which required the State Fiscal Management Board (now the Department of Finance and Administration) to issue an annual report in conformity with generally accepted accounting principles.

In 1985, the Fiscal Management Board produced an unaudited compilation of the state's financial records, which was the first time the financial records of the state had been presented in a consolidated financial report.

In 1986, MISS. CODE ANN. §7-7-45 (1972) was amended to require that from and after October 1, 1986, the State Fiscal Management Board must prepare a CAFR. Also, MISS. CODE ANN. §27-104-4 (1972) required that the CAFR be prepared in accordance with GAAP and be audited by the Department of Audit in accordance with generally accepted auditing standards. Since 1986, the State of Mississippi has issued a CAFR each year.

Description and Purpose of the CAFR

The CAFR presents a governmental entity's net assets, a statement of the entity's activities, and information regarding the entity's control over funds devoted to specific activities or purposes.

The CAFR presents the basic financial statements of the state in two components: the government-wide financial statements and the fund financial statements.

The government-wide financial statements consist of a statement of net assets and a statement of activities. The statement of net assets reports all of the assets, liabilities, and net assets of the state. The statement of activities reports the revenues, expenses, and the net expense or revenue of the government. The government-wide financial statements report government activities in three components: government activities, business type activities, and component units.

The fund financial statements contain information on related accounts used to maintain control over resources devoted for specific activities or purposes. Fund accounting is used to demonstrate the state's compliance with legal requirements. Funds are divided into three fund components: government funds, proprietary funds, and fiduciary funds.

Appendix C, page 119, gives additional detail on the types of information contained in the CAFR.

The Department of Audit's Responsibilities Regarding the CAFR

When performing audits of state and local governmental entities, the Department of Audit must comply with auditing industry standards and guidelines in order for the department's issuance of audit reports and auditor opinions to be accepted by interested third parties (e.g., the Legislature, citizens, investors) as independent reviews of the audited entities.

The Department of Audit is correct in using sampling and materiality in determining the timing and scope of audits.

The Department of Audit is responsible for performing independent audits of all state and local government entities in Mississippi. Accordingly, the department is obliged to adhere to Yellow Book auditing standards and to comply with auditing industry standards and guidelines in conducting these independent audits. Therefore, the Department of Audit is correct in using sampling and materiality in determining the timing and scope of audits.

The CAFR audit is extremely important because the CAFR represents the financial position of the state of Mississippi and is used by financial analysts in determining the financial health of Mississippi, which impacts the state's ability to obtaining financing and the cost of borrowing funds. The Department of Audit properly devotes the necessary resources to ensure that the audit of CAFR is conducted in a timely manner while adhering to necessary audit guidelines, standards, and practices.

Financial and Compliance Audit Division

Risks Addressed by the Department of Audit's Financial and Compliance Audit Division

Mission and Responsibilities of the Financial and Compliance Audit Division

State law gives the Department of Audit responsibilities regarding audits of state and local governmental entities and for complying with the amended requirements of the Single Audit Act of 1995. (See Appendix A, page 79.) The department has assigned these responsibilities to the Financial and Compliance Audit Division. As noted in Exhibit 1 on page 9, the Financial and Compliance Audit Division is responsible for performing audits of the state's financial statements (CAFR), state agencies, institutions, universities, community and junior colleges, counties, and public school districts.

Summary of Risks that the Financial and Compliance Audit Division Addresses

According to PEER's analysis, the Financial and Compliance Audit Division's responsibilities address risks at all four levels. (See page 4 for an explanation of PEER's theory of accountability risks to state and local government and see pages 86 through 103 of Appendix A for the responsibilities assigned to the Financial and Compliance Audit Division.)

The following section contains a discussion of how the division's operations address the risks assigned.

How the Financial and Compliance Audit Division's Operations Address the Risks Assigned

PEER determined that the Financial and Compliance Audit Division's responsibilities for the CAFR audit, the Single Audit, and its authority and responsibility for the audit function in Mississippi address Level 1 risks. The division's responsibilities concerning audits of education units and counties address Level 2 risks. The division's responsibilities concerning audit matters not related to CAFR or the Single Audit Act and certain recordkeeping and technical matters address Level 3 risks. PEER assigned a Level 4 risk to some information items that are not necessary for the operation of the Financial and Compliance Audit Division.

The Financial and Compliance Audit Division's responsibilities address risks at all four levels.

PEER classified CAFR and Single Audit Act responsibilities and CODE sections granting the Department of Audit authority and responsibility for the audit function in Mississippi as addressing Level 1 risks because failure to execute these functions properly would have a serious impact on the state's standing in the financial markets and in receiving federal funds, which are vital to the operation of the state. The division addresses these risks by performing the CAFR audit and Single Audit annually. The Department of Audit exercises its authority and assumes responsibility for the audit function in Mississippi. The department addresses compliance with this authority and responsibility by executing the audit function throughout the year and by designing and implementing internal policies and procedures, quality control, and training for staff.

PEER classified the division's responsibilities for audits of education units and counties as addressing Level 2 risks because these governmental units are important to local citizens. A failure to uncover a significant financial problem in a school district or county government creates doubt and uncertainty in local citizens and creates doubt whether the state is properly monitoring the schools and counties. The division addresses these risks by performing or reviewing outside CPAs' annual audits of public schools and counties.

PEER classified the division's responsibilities for audits that did not relate to CAFR or the Single Audit Act and technical and recordkeeping items as addressing Level 3 risks. Although accountability for all state entities is important, the entities not involved in the CAFR audit or Single Audit Act represent a lower risk because audit findings regarding these agencies would not have a material impact on the financial standing of Mississippi in the financial markets.

PEER classified some information items as Level 4 risks because they are not necessary to the operation of the Financial and Compliance Audit Division's mission or represent items received, but not used, by the division.

Conclusions Regarding Operations of the Financial and Compliance Audit Division

The Financial and Compliance Audit Division appropriately focuses resources on performing the CAFR and Single Audit audits to address primary risks to the state and on performing education audits and county audits to address risks to local government entities. However, staff shortages and turnover hamper the division's ability to accomplish these tasks.

Department of Audit's Audit of CAFR and Single Audit

The CAFR represents the financial statements of Mississippi and is relied upon by financial markets in assessing the financial health of Mississippi. The Financial Audit and Compliance Division appropriately focuses necessary resources to ensure the CAFR audit is conducted in accordance with generally accepted government auditing standards and completed in a timely manner.

Importance of the Department of Audit's Audit of the CAFR

Failure to complete the CAFR audit and issue an audit opinion by the deadline would have a negative impact on the state's financial standing in the view of financial analysts.

Issuance and auditing of the CAFR is assessed as a Level 1 risk because financial markets and financial analysts have come to expect an annual CAFR with an accompanying auditor's opinion. The failure to issue a CAFR and/or an accompanying audit opinion would have a severe negative impact on the state's ability to secure financing in financial markets.

In accordance with GAAP, the Department of Finance and Administration (DFA) issues a CAFR, which contains the financial statements of Mississippi and represents DFA's assertion of the financial position of the state of Mississippi at the end of a fiscal year. In accordance with GAAP, it is the Department of Audit's responsibility to audit the CAFR in accordance with generally accepted government auditing standards (GAGAS), in accordance with AICPA audit standards, and to issue an auditor's opinion for each CAFR. (See page 20.)

The Department of Audit's opinion is an assertion regarding whether the CAFR presents fairly, in all material respects, the financial position of the state in compliance with GAAP at the conclusion of a fiscal year. The department's opinion is contained in the Independent Auditor's Report letter that is included in the CAFR.

If Mississippi's CAFR were not audited or an auditor's opinion not issued on the CAFR, the state's credit rating would be negatively impacted and securing financing through bonds or other means would also be negatively impacted. In short, the effect on the state's standing in the financial market would be disastrous. The effect of Mississippi's CAFR not being audited would be equivalent to a major corporation's financial statements not being audited.

If Mississippi's CAFR were not audited or an auditor's opinion not issued on the CAFR, the state's credit rating would be negatively impacted and securing financing through bonds or other means would also be negatively impacted.

Further, the Department of Audit's audit opinion on the CAFR must be issued by December 31 following the completion of each fiscal year. This deadline is part of the Government Finance Officers Association's (GFOA) requirement to receive the Certificate of Achievement for Excellence in Financial Reporting for the state's CAFR. The Department of Finance and Administration submits the CAFR to the GFOA for review. The GFOA reviews the CAFR for compliance with requirements of GAAP. Receiving the Certificate of Achievement is a sign of excellence and the lack of a Certificate of Achievement would be seen negatively by bond rating agencies. Mississippi's CAFR has received the Certificate of Achievement annually since the 1987 CAFR.

The Department's Use of Materiality in Determining Scope of the CAFR Audit

The Financial and Compliance Audit Division appropriately uses materiality in determining the scope of the CAFR audit.

The Department of Audit uses experience, auditor judgment, and the Practitioner Publishing Company's industry guidelines as guidance in setting materiality levels.

The Department of Audit uses experience, auditor judgment, and the Practitioner Publishing Company's (PPC) industry guidelines as guidance in setting materiality levels. (See page 13 for a discussion on the concept of materiality in auditing.) After materiality is established, the department's personnel select the accounts in the CAFR that exceed the materiality level. For example, for the FY 2006 CAFR, the Sales Tax account and the General Government account found in the Statement of Revenues, Expenditures, and Changes in Fund Balances exceed the materiality amount and are audited. The total balances of these accounts are comprised of individual balances from several agencies. The audit of these accounts requires that on-site audits of these accounts be conducted in each agency that contains these accounts. The sampling process is designed to ensure that 60% to 70% of the total balance is audited. The PPC's industry guidelines do not specify a percentage that should be reviewed during an audit. Instead, auditors are expected to exercise professional judgment based on historical knowledge of the audited entity when determining the percentage reviewed. The 60% to 70% range has been historically used by the Department of Audit in performing the CAFR audit.

Some sections of the CAFR will not contain individual accounts that are material individually. For example, for the FY 2006 CAFR, the Liabilities section in the Balance Sheet for Government Funds did not contain any accounts that were material individually. In such situations, individual accounts below the materiality level are chosen to ensure overall audit coverage of the section. The accounts chosen are designed to ensure that 60% to 70% of the total balance is audited.

Importance of the Department of Audit's Single Audit

The Single Audit is an audit of state and local government entities expending more than $500,000 in federal funds to ensure funds are expended in accordance with federal laws and regulations. The Financial and Compliance Division appropriately focuses necessary resources to ensure that the Single Audit is properly conducted in a timely manner.

The Financial and Compliance Audit Division is responsible for conducting the state's Single Audit. Because federal funds represent a vital part of both state and local government's ability to provide services to citizens, complying with the Single Audit Act provisions represents a Level 1 risk.

Congress originally passed the Single Audit Act in 1984 to improve the auditing and management of federal funds provided to state and local governments. Under the act, a single financial and compliance audit is conducted for all federal funds received by an entity. Prior to the act, each federal agency had the authority to require an audit of each federally funded program or activity, which resulted in multiple audits of an entity to account for federal funds. Currently, entities that spend less than $500,000 in federal funds are exempt from the requirement of having a Single Audit.

Failure to appropriately conduct or complete the Single Audit in a timely manner could jeopardize the state's or a local government's ability to receive and expend federal funds.

The Financial and Compliance Audit Division conducts some Single Audit work in conjunction with CAFR audit work and some Single Audit work must be done at a different time. The deadline for submitting the state's Single Audit Report is March 31, following the end of the state's fiscal year. Due to having a different fiscal year, the deadline for submitting a county's Single Audit Report is June 30. Failure to appropriately conduct or complete the Single Audit in a timely manner could jeopardize the state's or a local government's ability to receive and expend federal funds.

Auditing of Educational Entities and Counties

The Financial Audit and Compliance Division appropriately focuses necessary resources to ensure that the education and county audits are performed in accordance with generally accepted government auditing standards.

Responsibilities of Education and County Audit Sections

The Education Audit Section is responsible for annual audits of the eight public universities, fifteen community and junior colleges, and 150 public school districts. The County Audit Section is responsible for annual audits of Mississippi's eighty-two counties.

Under MISS. CODE ANN. §7-7-211 (d) and (e) (1972), the Department of Audit has the responsibility to audit universities, community and junior colleges, public school districts, and county governments. Because they are state institutions, universities' audits are a part of CAFR and are Level 1 risks. Because they are local government entities, the audits of community and junior colleges, public school districts, and county governments are Level 2 risks; although local government entities are important to local citizens, they do not represent a material risk to the state.

The Education Audit Section and County Audit Section of the Financial and Compliance Audit Division are responsible for these audits. The Education Audit Section is responsible for annual audits of the eight public universities, fifteen community and junior colleges, and 150 public school districts. Since FY 1998, the Education Audit Section has audited the universities under the governance of the Board of Trustees of the Institutions of Higher Learning as a system. This audit is known as the "IHL Audit." As part of the IHL audit, selected accounts at the IHL offices and each of the eight public universities are audited. The County Audit Section is responsible for annual audits of Mississippi's eighty-two counties, which operate on a fiscal year of October 1 to September 30.

Low Staffing Levels and High Turnover

Low staffing levels and high turnover rates in the Financial and Compliance Audit Division have resulted in a decreased experience level of audit staff and reduced institutional knowledge to use in forming auditor judgment. This situation also has increased the time required to perform audits due to training and supervising inexperienced staff and causes parts of the CAFR audit, Single Audit, education audits, and county audits to be contracted to outside CPA firms whose reports, at times, contain errors that must be corrected.

Chronic staff vacancies and turnover hamper the Financial and Compliance Audit Division in accomplishing its mission of annually auditing the CAFR, Single Audit, education audits, and county audits. If the Financial and Compliance Audit Division does not have sufficient experienced staff to conduct an audit, the division contracts with an outside CPA firm to conduct the audit. Agencies, universities, community and junior colleges, public school districts, and counties are responsible for paying outside CPA firms.

From FY 2002 through FY 2006, seventy-one staff members terminated from the Financial and Compliance Audit Division, which represents an eighty percent turnover rate.

At the end of FY 2004, the Agency, Education, and County sections had four vacancies and eighty-nine filled positions. For FY 2007, these sections have twenty-seven vacancies and sixty-five filled positions. According to Department of Audit officials, sixteen of the vacant positions are unfunded. From FY 2002 through FY 2006, seventy-one staff members terminated from the Financial and Compliance Audit Division, which represents an eighty percent turnover rate. From May 2006 through October 2006, four senior-level auditors left the division.

Staff shortages and turnover have led to the use of outside CPA firms in the CAFR and Single Audit audits at rates as high as $125 per hour.

For the CAFR and Single Audit work performed during FY 2006, outside CPA firms performed 7,736 hours of audit work at a cost of $630,030.

The Department of Audit does not perform the entire CAFR audit due to staff limitations. For accounts not audited by Department of Audit Staff, the Department of Audit instructs agencies to contract with outside independent auditors to perform CAFR-related audits. Agencies select and contract with the CPA firms to conduct the audit work. The department does not have input into which CPA firm is chosen or the contract price. For the CAFR and Single Audit work performed during FY 2006, outside CPA firms performed 7,736 hours of audit work at a cost of $630,030, or an average rate of $81 per hour. The highest hourly rate was $125 per hour.

Generally, the Department of Audit is a third party to these contracts with independent auditors to ensure that work is performed in a timely manner. The department relies on the work of these independent auditors and departmental personnel review the work from outside independent auditors to ensure compliance with GAGAS.

Other portions of the CAFR are audited by outside independent auditors because the governing boards want an audit that is greater in depth than a CAFR-related audit, or an audit that would be CAFR-related is required by law. For example, the College Savings Plans of Mississippi Board of Directors prefers an audit of the Mississippi Prepaid Affordable College Tuition Program that is more in-depth than would be a CAFR-related audit by the Department of Audit. Accounts falling into these categories are identified in the Department of Audit's Independent Auditor's Report found in the CAFR. The department's audit opinion of CAFR as it relates to these items is based on the reports of the independent auditors performing the audits of these items.

GAAP requires and financial analysts expect Mississippi to issue the CAFR with an auditor's opinion. Failure to meet these requirements and expectations would have a negative impact on the financial standing of Mississippi. The Department of Audit is correct in dedicating the staff necessary to meet these requirements and expectations.

Staff shortages and turnover have led to the use of outside CPA firms to perform all audits of community and junior colleges and a majority of public school and county audits at rates as high as $101 per hour.

Education Audit Section

During FY 2005, outside CPA firms audited 117 public school districts at a cost of $1.6 million.

Due to staff shortages, some Education Section audits are contracted with independent CPA firms. For the fiscal year ending June 30, 2005, the Department of Audit's staff performed twenty public school district audits and outside CPA firms received contracts to perform the remaining 130 public school district audits. During FY 2005, outside CPA firms audited 117 public school districts at a cost of $1.6 million, with an average hourly rate of $51 per hour. Rates ranged from $29 per hour to $101 per hour. (Hours worked and/or rates charged were not available for the remaining thirteen public school districts audited by outside CPA firms.)

During FY 2006, the audits for all fifteen community and junior college audits were contracted to outside CPA firms. Cost and rates or contracts were not available at the time of this review.

Schools, universities, and colleges select and contract with the CPA firms to conduct the audit work. The Department of Audit does not have input into which CPA firm is chosen or the contract price. Also, the Department of Audit is not a third party to audit contracts of public schools.

County Audit Section

For County FY 2006, fifty-nine county audits are being performed by outside CPA firms.

The Department of Audit's staff performs some county audits, but staff shortages have led to an increasing number of county audits being performed by outside CPA firms. For County FY 2003, forty-eight county audits were performed by the outside CPA firms and for County FY 2006, fifty-nine county audits are being performed by outside CPA firms.

The County Audit section had contract information on fifty-two of the fifty-nine counties audited by outside CPA firms for FY 2006. The total cost of the fifty-two county audits conducted by outside CPA firms was $1.6 million at an average cost of $50 per hour. Rates ranged from $32 per hour to $91 per hour.

If a county audit is not performed by Department of Audit staff, the audit is contracted to an outside CPA firm. Counties select and contract with the CPA firms to conduct the audit work. The Department of Audit does not have input into which CPA firm is chosen or the contract price. The Department of Audit is a third party to contracts between the counties and the outside CPA firms.

At times, the department's Financial and Compliance Audit Division staff must address issues of accuracy and timeliness in the work of outside CPA firms.

To ensure continuity of audit steps performed, outside CPA firms are given a Department of Audit-designed audit program to use in the contracted school or county audit. At the completion of the audit work, the Education Audit Section or County Audit Section staff review the contract CPA firm's proposed audit report. Department of Audit officials state that most CPA firms perform excellent work and produce accurate reports. However, at times, the department's staff detects errors in the proposed audit reports of outside CPA firms that must be resolved prior to issuance of the audit report. In one instance, the proposed financial statements for a school district did not balance. In another instance, the proposed audit report contained a qualified opinion, which indicates a reportable audit finding. However, the report did not contain any findings.

Receiving reports from outside CPA firms in a timely manner is also an issue.

Receiving reports from outside CPA firms in a timely manner is also an issue. The contract between each school district and CPA firm calls for an audit report to be submitted by December 15 following the completion of a school's fiscal year. However, the proposed FY 2005 audit reports of eighteen school districts had not yet been submitted to the Education Audit Section as of November 1, 2006. The contract between a county and outside CPA firms calls for an audit report to be submitted within one year of the completion of the county's fiscal year. Of the sixty-four county audits contracted to outside CPA firms for County Fiscal Year 2005, the proposed audit reports for forty-two counties had not been submitted to the County Audit Section as of November 1, 2006.

Although the audit contract for public schools permits the option of reducing the audit fees by 20% if the outside CPA firm fails to submit a proposed audit report by the December 15 deadline, the school district may grant an extension of the deadline and waive the penalty provision of the contract. The audit contract for counties permits the option of reducing the audit fees by 25% if the outside CPA firm fails to submit a proposed audit report by the contract deadline. However, the county has the option of extending the deadline and waiving the penalty provision of the contract.

Staff shortages and turnover decrease the experience level of Financial and Compliance Audit Division staff. Experience plays an important role in formulating auditor judgment, which directly affects the type and detail of audit work performed.

Vacancies and turnover decrease the experience level of field staff. Auditor experience is important in ensuring the continuity of audit work performed from year to year and in formulating auditor judgment, which directly impacts the type and detail of audit work performed.

The loss of experienced field staff and senior level field staff severely impact the division's ability to carry out its audit responsibilities by diminishing the division's experience, institutional knowledge, and auditor judgment.

Further, new staff must be properly supervised and trained, which negatively impacts the efficiency of conducting audits. A competent, experienced team of field staff is more efficient in conducting an audit than an inexperienced team that requires explanations and close supervision.

Entry-level audit staff receive extensive training for several years prior to assuming responsibility for leading an audit. The loss of experienced field staff and senior level field staff severely impact the division's ability to carry out its audit responsibilities properly by diminishing the division's experience, institutional knowledge, and auditor judgment. In turn, this increases the risk that an error or omission could occur during the audit process, with a potential to negatively impact the state's and/or local government's standing in the financial markets. If the remaining field staff do not have the necessary experience to assume the responsibility of conducting an audit, the loss of experienced field staff is magnified.

As senior level field staff or manager-level staff (supervisors of senior level staff) leave, other managers or section directors must take on additional responsibilities of supervising or monitoring individual audits, which reduces their time to execute properly their duties of overseeing other audits and increases the risk of errors or omissions not being detected during the review process. This condition also increases the risk that an error or omission could occur during the audit process with a potential to negatively impact the state's and/or local government's standing in the financial markets.

Non-competitive salaries make the retention of audit staff difficult. As staff members gain experience, other state agencies or CPA firms often hire them at higher salaries.

Non-competitive salaries make the retention of audit staff difficult. According to Department of Audit officials, attracting entry-level staff is difficult and experienced staff members typically leave for employment at other state agencies or independent CPA firms at significantly higher salaries. According to the 2007 Salary Guide from Robert Half International (an international staffing and consulting service), entry-level professionals at small CPA firms (under $25 million in sales) earn between $38,000 to $44,000 annually. Entry-level staff in the Department of Audit's Financial and Compliance Audit Division earn approximately $32,000 annually and senior staff members, who would be the in-charge auditors for audits, each earn approximately $39,000 annually.

As staff members gain experience, other state agencies or CPA firms often hire them at higher salaries. Department of Audit officials recounted to PEER several instances in which experienced audit staff were offered positions at CPA firms and other state agencies for significant increases in salary.

Lower salaries also hamper efforts to recruit entry-level staff with the qualifications to sit for the CPA exam. Only CPAs can issue opinions on audit work performed.

The lower salaries also hamper efforts to recruit entry-level staff with the qualifications to sit for the CPA exam. To sit for the CPA exam, a person must have earned a total of 150 semester hours in appropriate college courses; this usually means the person holds both bachelor's and master's degrees. Persons qualified to sit for the CPA exam are often sought by CPA firms for employment. Although a person not qualified to sit for the CPA exam may be a valuable staff member and perform audit fieldwork, only CPAs can issue opinions on audit work performed.

Cost of Audits

Although the department is allowed to charge actual costs for performing audits of federal funds, state law limits the Department of Audit's fees for the audit of state funds to $100 per day, thereby limiting the department's ability to generate revenue that could be used to hire additional staff.

Under MISS. CODE ANN. §7-7-213 (1972), the Department of Audit may charge actual costs to perform audits but cannot charge more than $100 per day, which equals a maximum hourly rate of $12.50. However, MISS. CODE ANN. §7-7-214 (1972) allows the department to charge actual costs, currently $51 per hour, for performing Single Audit work and auditing federal funds during an audit. Therefore, during an audit of an entity with federal funds, the effective rate of the department's staff is higher than $12.50, depending on the ratio of federal and state funds audited.

If the Legislature amended state law to allow the department to charge a rate equal to the Single Audit rate, additional audit staff could be added and funded through revenue generated by the additional staff's billed hours.

According to Department of Audit officials, auditors should bill 136 hours monthly or 1,632 hours annually. If the Legislature amended MISS. CODE ANN. §7-7-213 (1972) to allow the department to charge a rate equal to the Single Audit rate, additional audit staff could be added and funded through revenue generated by the additional staff's billed hours. Each hour worked on the CAFR audit would generate $30 per hour savings to state agencies over the average rate charged by outside CPA firms, which represents a potential savings of approximately $232,000 to state agencies.

The Single Audit rate is approximately equal to the rate charged by outside CPA firms for public school and county audits. Therefore, if the Department of Audit's hourly rate were changed to equal the Single Audit hourly rate, public schools and counties paying more than the average rate would save money by having Department of Audit staff perform their audits, while those public schools and counties paying less than the average rate would incur increased expenses.

To perform its statutory responsibilities, the Department of Audit must build and maintain a knowledgeable, experienced audit staff. A stable audit staff increases the continuity of audit work and maintaining an experienced audit staff enhances auditor judgment, which contribute to reducing audit risk for the state and local government entities. However, because entry-level staff require extensive training, the goal of a fully staffed and experienced audit staff will take several years to achieve.

Auditing of Smaller Agencies Not Material to CAFR

Due to a combination of the amount of time required for performing the CAFR audit and the Single Audit and the shortage of staff, the Financial and Compliance Audit Division does not perform audits of agencies not material to CAFR. However, accountability for taxpayer funds in smaller agencies not material to CAFR could be accomplished through the Department of Audit's Limited Internal Control and Compliance reviews.

Smaller agencies are not audited during CAFR audits.

Prior to CAFR, audits of individual agencies were the expected industry standard for state audits. However, individually issued audits of over one hundred state agencies did not afford interested parties (e.g., the Legislature, taxpayers, financial analysts) a consolidated view of the state's financial position. For example, to determine the state's outstanding indebtedness, interested parties would have to review each agency's financial statements and add outstanding debt of each agency to determine a total. The CAFR affords interested parties a consolidated view of the state's financial position in one document.

Many smaller agencies are not audited during the CAFR audit. Also, audits of agencies with funds material to CAFR are limited to those funds deemed material and other funds not material to CAFR are not audited.

Although thirty-three sections of state law require annual audits of some state agencies, after a CAFR became a requirement of GAAP and the expected document for the analysis of the financial position of a state, audits of individual agencies became relevant only to the point an agency has amounts material to CAFR. Strictly from the viewpoint of auditing for the CAFR, non-material amounts do not require an audit, unless the non-material amounts collectively become material. In such cases, the non-material items are audited as a group. This situation is considered by the Department of Audit's staff during the CAFR audit and handled appropriately. However, many smaller agencies are not audited during the CAFR audit. Also, audits of agencies with funds material to CAFR are limited to those funds deemed material and other funds not material to CAFR are not audited.

Not performing annual audits of smaller agencies and not performing audits on all amounts not material to CAFR should not be construed as a failure of the Department of Audit. The auditing industry's standards and practices do not require audits of non-material amounts. Further, due to the time required to perform the CAFR audit and Single Audit, coupled with staff shortages and turnover, the Financial and Compliance Audit Division does not have the staff necessary to perform annual audits of agencies not material to CAFR and all amounts not material to CAFR.

As noted previously, the purpose of an audit is to determine whether financial statements are a *fair* representation of the financial position of an entity at a particular point in time. Audits focus on amounts, referred to as material amounts, that would affect the *fairness* of the financial statements and would impact how a user of the financial statements would view the financial position of the entity audited. It is not practical from a time standpoint or required from an auditing standpoint to audit all non-material amounts.

Accountability for smaller agencies not audited during the CAFR audit can be achieved through the Department of Audit's Limited Internal Control and Compliance Reviews (LICCR).

A LICCR evaluates an agency's compliance with state laws, its own internal controls, state policy and procedures, and its own policy and procedures.

Even though an agency may not be audited for CAFR purposes, it is important to maintain accountability of taxpayer funds entrusted to the agency. To maintain accountability, the Department of Audit performs Limited Internal Control and Compliance Reviews (LICCR) of agencies not audited during the CAFR audit. A LICCR evaluates an agency's compliance with state laws, its own internal controls, state policy and procedures, and its own policy and procedures.

Staffing shortages and the use of Financial and Compliance Audit field staff by other divisions have hampered the number of LICCRs performed. During FY 2004, eighteen LICCRs were performed; during FY 2005, twenty-two LICCRs were performed; and during FY 2006, only one LICCR was performed. In FY 2006, Financial and Compliance Audit staff were used by the Performance Audit Division in conducting a performance review of the Barksdale Child Care Project. Additional staffing would allow more LICCRs to be performed, increase the accountability of agencies not audited during the CAFR audit, and provide further safeguards of taxpayer funds.

The Financial and Compliance Audit Division receives and retains certain reports that governmental entities are statutorily required to provide to the Department of Audit. The department does not use these documents to fulfill its fiscal oversight and accountability functions and storage has become an issue due to limited space.

As listed below, at least fourteen provisions in the MISSISSIPPI CODE require governmental entities to submit certain reports to the Department of Audit.

- Section 27-1-37: Copy of report of annual enumeration of all ex-confederate soldiers and widows of deceased confederate soldiers
- Section 27-45-1: Copy of report of county land redemption settlements
- Section 27-51-11: Copy of report for each county road and bridge privilege license
- Section 41-73-71: Annual reports of Mississippi Hospital Equipment and Facilities Authority
- Section 45-3-25: Copy of patrolman's abstract of the court record
- Section 47-5-30 (3): Strategic plan on the operations of the state's correctional system
- Section 49-2-29 (3): Strategic plan on the operations of the Department of Environmental Quality
- Section 51-29-97: Annual sworn statements of financial condition from drainage districts
- Section 63-9-21 (6): Copy of uniform traffic tickets
- Section 65-9-25: Notification of withdrawal of state aid road funds from a county by the State Aid Engineer
- Section 65-18-17: Notification of withdrawal of local system road funds from a county by the State Aid Engineer
- Section 69-21-119 (3): Board of Agricultural Aviation annual financial statements and any proposed license fee adjustments
- Section 77-5-253: Electric power associations' annual financial reports and compliance audits
- Section 77-15-3: Local natural gas districts' annual financial reports

Should an auditor need a report during the course of an audit, the auditor could request such documents directly from the governmental entity as part of the audit's fieldwork phase.

The Financial and Compliance Audit Division's staff receives the statutorily required reports and files them, but the department's auditors do not use the reports to help fulfill the department's fiscal oversight and accountability responsibilities.

Should an auditor need a report during the course of an audit, the auditor could request such documents directly from the governmental entity as part of the audit's fieldwork phase. The receipt of the statutorily required reports has become an archival challenge for the department due to limited on-site storage capacity in its central office in the Woolfolk State Office Building.

Property Audit Division

Risks Addressed by the Department of Audit's Property Audit Division

Mission and Responsibilities of the Property Audit Division

State law gives the Department of Audit responsibilities at the state or local government level regarding accountability for fixed assets--i.e., lands, buildings, equipment, furniture, and other personal property, except highway rights of way. The department has assigned these responsibilities to the Property Audit Division.

According to the Department of Audit's 2005 Annual Report, the department has established the following mission for the Property Audit Division:

> *. . .to protect the public's trust by independently assessing state and local governmental entities to ensure that public property is properly procured, effectively managed in its dispersal and disposal and proper procedures are lawfully followed regarding the addition and deletion of fixed assets. In addition to verifying the existence of fixed assets, the Division is responsible for maintaining a master inventory of all state owned fixed assets and periodic audits of state and local governmental asset maintenance records.*

As noted in Exhibit 1 on page 9, the Property Audit Division conducts fixed asset audits in state agencies, universities, and counties, with its staff of eight (a division director, operations analyst, administrative assistant, and five auditors) to assure compliance with accountability requirements for fixed assets and the proper markings of state and local governmental entity vehicles. The division also uses Average Daily Attendance Audit (ADA) Division compliance auditors to perform property audits of public school districts. The ADA auditors submit the results of the property audits to the Property Audit Division staff, who complete the audit process by performing necessary administrative tasks—i.e., producing inventory reports and working with school districts to resolve inventory discrepancies. The division also maintains a master inventory of fixed assets for state agencies and universities.

Summary of Risks that the Property Audit Division Addresses

PEER determined that one of the Property Audit Division's responsibilities addresses a Level 1 risk, none of the responsibilities address Level 2 risks, and its other responsibilities address Level 3 and Level 4 risks. (See page 4 for an explanation of PEER's theory of accountability risks to state and local government and see pages 108 through 110 of Appendix A for the responsibilities assigned to the Property Audit Division.)

The following section contains a discussion of how the division's operations address the risks assigned.

Conclusions Regarding Operations of the Property Audit Division

The Department of Audit, through its Property Audit Division, fulfills its statutory responsibility of accounting for fixed assets of state agencies and universities. However, the department conducts unnecessary fixed asset audits for counties and public school districts. Also, the division's statutorily required checks for state and local entities' compliance with state vehicle marking requirements engage staff resources for tasks that could be performed by the local entities themselves. As a result, the department has a reduced amount of time in which to fulfill its statutory responsibilities for property audits, thus increasing the risk to fixed assets.

Accounting for Fixed Assets of State Agencies and Universities

The Department of Audit fulfills its statutory responsibilities of accounting for state agencies' and universities' fixed assets, as well as other responsibilities related to accounting for fixed assets of other state entities.

State law mandates that all state agencies, including universities, make inventories of all fixed assets.

If state agencies and universities did not maintain inventories of their fixed assets, DFA would have no basis with which to value state assets for inclusion in the CAFR.

MISS. CODE ANN. Section 29-9-1 (1972) requires that heads of all state agencies make inventories of all lands, buildings, equipment, furniture and other personal property, except highway rights of way. Fulfillment of this responsibility directly impacts the fixed asset values for state agencies and universities that are included in the CAFR. State agencies and universities complete generally accepted accounting procedures (GAAP) packages semi-annually that include the values for fixed assets. The entities submit the packages to DFA staff, who incorporate the fixed asset values into the CAFR. If state agencies and universities did not maintain inventories of their fixed assets, DFA would have no basis with which to value state assets for inclusion in the CAFR.

The Department of Audit conducts regular fixed asset audits of state agencies and universities.

Chapter 9 of Title 29, MISSISSIPPI CODE ANNOTATED (1972), requires the Department of Audit to conduct regular fixed asset audits of state agencies. A complete reading of the chapter makes clear that the term "agency" embraces state universities as well as the other agencies, departments, and commissions of state government.[2] To fulfill its responsibility to ensure that state agencies and universities conduct these inventories, the Department of Audit's Property Audit Division:

- conducts on-site fixed asset audits of 130 property accounts in state agencies and universities;
- maintains and reconciles a master inventory of fixed assets on a monthly basis and as part of its property audit process;
- assures compliance with state law and the Department of Audit's policies regarding monthly reporting of additions and deletions of fixed assets; and,
- publishes and revises a property officers' manual that assists in maintaining an effective property inventory system.

From FY 2004-FY 2006, the department conducted an average of seventy-six fixed asset audits per year of state agencies and universities.

From FY 2004 through FY 2006, the Department of Audit conducted an average of seventy-six fixed asset audits per year of state agencies and universities. The department's fixed asset inventories of state agencies and universities address a Level 1 risk, as categorized by PEER.

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[2]The Department of Audit's *Property Officers' Manual* defines *property* as: "all furniture, vehicles, equipment and other state property having a useful life expectancy of at least one year and the cost of which is $500 or more. It does not include carpeting (excluding area rugs), draperies, plants, installed floor-to-ceiling partitions, window shades or blinds, mattress/box springs, water heaters, installed drinking fountains, museum acquisitions, library books, films or archival collections. All items under $500 in value are not required to be placed on inventory excluding specialty items."

The manual defines *fixed assets* as "assets of long term character, non-consumable in nature, and are intended to be held or used. These include land, buildings, improvements, machinery, furniture and other equipment whose costs exceed $500."

The Department of Audit's Property Audit Division has procedures in place to account for assets not included in the fixed asset audits of state agencies and universities.

While the inventories of fixed assets not included in the fixed asset audits of state agencies and universities are important, they do not impact the inventory values included within the state's CAFR.

In addition to state agencies' and universities' fixed asset audits, the division accounts for assets of other entities. For example, the division receives the livestock inventory from the Agricultural Extension Service at Mississippi State University annually and uses this information to maintain the master state inventory value of for state-owned livestock. The division also performs fixed asset audits of the Surplus Property account and receives a list of fixed assets with invoices that Surplus Property has sold to state and local government entities. The department uses this documentation to ensure that eligible items of state agencies, universities, counties, or public school districts are added to the appropriate entity's fixed asset inventory. The department also prescribes the perpetual inventory system that the Department of Finance and Administration uses for surplus property. Finally, the division publishes a Fixed Assets Manual with mandatory policies, procedures, rules, and forms for accomplishing the mandated annual physical inventory requirements in cities, counties, and public school districts. The division's use of these procedures to inventory assets not included in the fixed asset audits addresses Level 3 risks, as categorized by PEER. While the inventories are important, they do not impact the inventory values included within the state's CAFR.

Checking for Compliance with Marking Requirements for State Vehicles

The Department of Audit fulfills its statutory responsibility of verifying that state and local government entities comply with motor vehicle identification requirements.

State law requires the Department of Audit to check the vehicles of all state agencies and local government units to verify compliance with marking requirements.

MISS. CODE ANN. Section 25-1-87 (1972) requires all motor vehicles owned or leased by any agency, department, or political subdivision of the state to have on both sides and the rear of the vehicle the name of the agency, department, or political subdivision. The section further requires the Department of Audit's property auditors to:

- personally examine vehicles and report marking violations to the State Auditor and the Chairman of the Joint Legislative Committee on Performance Evaluation and Expenditure Review; and,

- notify the State Tax Commission of violations by municipalities or political subdivisions. (In cases of violations of vehicle marking requirements, the commission withholds distribution of sales taxes and excise taxes on gasoline, diesel fuel, kerosene and oil until the Department of Audit notifies the commission that the municipality or political subdivision has complied with the requirements.)

When the Property Audit Division conducts fixed asset audits at state agencies, counties, and public school districts, the auditors also examine each entity's owned or leased vehicles to check for compliance with marking requirements. Average Daily Attendance Audit Division auditors check for compliance with marking requirements at school districts and municipalities (see page 42).

MISS. CODE ANN. Section 25-1-87 (1972) mandates that the Governor forward to the department any exemptions that he has given to state entities for unmarked vehicles in accordance with state law. The governing authority for the local government units also must forward the documentation authorizing unmarked vehicles to the division. This information is available from the state or local government when the division's auditor performs his audit.

Also, MISS. CODE ANN. Section 19-25-15 (1972) mandates that the county boards of supervisors furnish certified copies of resolutions for identifying unmarked motor vehicles to the Department of Audit. These resolutions provide information for the department's auditor who will examine the county vehicles for proper markings.

The statutorily required checks for compliance with vehicle marking requirements engage the Department of Audit's staff resources that could be used to conduct fixed asset audits of state agencies and universities.

Checking compliance of vehicles is a task that could be performed by local officials and attested to when they submit their entity's fixed asset inventories to the Department of Audit.

Although PEER does not question the need for vehicle marking requirements, checking for compliance affects the workload of the Department of Audit and reduces the amount of time and staffing available to conduct the statutorily required fixed asset audits of state agencies and universities. At the least, checking compliance of vehicles belonging to or leased by local governmental units is a task that could be performed by local officials and attested to when they submit their entity's fixed asset inventories to the Department of Audit. This action would help to achieve the objective of accounting for local governmental entities' vehicles but would not engage staff resources of the department.

Accounting for Fixed Assets of Counties and School Districts

The Property Audit Division audits fixed asset accounts of counties and public school districts without specific statutory authority, although MISS. CODE ANN. Section 31-7-107 (1972) does require the counties to submit copies of their inventories to the department.

State law requires that counties, municipalities, and public school districts comply with inventory control regulations established by the Department of Audit.

MISS. CODE ANN. Sections 31-7-107, 7-7-211, and 37-17-6 (16) (1972) require counties, municipalities, and public school districts to comply with inventory control regulations that the department establishes for fixed assets. Local government entities (other than municipalities) must submit copies of their fixed asset inventories annually to the department in response to these regulations.

The department publishes these regulations in the *Mississippi County Fixed Assets Manual*, *Mississippi Municipal Fixed Assets Management Manual*, and *Mississippi Public School Asset Management Manual*. The manuals include definitions, procedures, policies, and state laws governing property, procurement, and the data processing system, as well as copies of the required forms.

Although state law does not specifically require the Department of Audit to do so, the department's Property Audit and Average Daily Attendance Audit divisions conduct fixed asset audits of county governments and public school districts.

The department has for several years conducted fixed asset audits of counties and school districts under its general authority for fiscal oversight and accountability.

Although MISS. CODE ANN. Section 29-9-13 (1972) requires the Department of Audit to conduct fixed asset audits of state agencies and universities, state law does not require the department to conduct fixed asset audits of county governments or public school districts. The department has for several years conducted these audits under its general authority for fiscal oversight and accountability given by MISS. CODE ANN. Section 7-7-211 (1972).

During fiscal years 2004 through 2006, the Department of Audit's Property Audit and Average Daily Attendance Audit divisions conducted 531 fixed asset audits. Of this number, 227 (or 43%) were fixed asset audits of state agencies or universities and 304 (or 57%) were audits of county governments or public school districts. The Department of Audit does not conduct fixed asset audits of municipalities. (See Exhibit 3, below.)

Exhibit 3: Distribution of the Department of Audit's Fixed Asset Audits among County Governments, Public School Districts, and State Agencies and Universities, FY 2004 through FY 2006

Fiscal Year	**County Government Fixed Asset Audits** *(not required by state law)*	**Public School District Fixed Asset Audits** *(not required by state law)*	**State Agency and University Fixed Asset Audits** *(required by state law)*
2004	43	98	56
2005	9	71	77
2006	34	49	94
	86 ***16%***	**218** ***41%***	**227** ***43%***

SOURCE: Department of Audit records; MISS. CODE ANN. Section 29-9-13 (1972).

The Department of Audit's fixed asset audits of counties and public school districts are not necessary, because state law already requires counties to conduct annual fixed asset inventories and the department's regulations require both counties and public school districts to do the same. Also, the department's auditors or contract auditors conducting financial audits of local government entities authorized by MISS. CODE ANN. Section 7-7-211 (e) (1972) must provide reasonable assurance that these entities' fixed asset inventories are accurate.

The state is already achieving the objective of accounting for fixed assets of these entities.

The Department of Audit conducts fixed asset audits of counties and public school districts to help ensure accountability and safeguard fixed assets through a periodic inventory of a percentage of the fixed asset account items. However, because the department's regulations already require counties to submit copies of their inventories annually (authorized by MISS. CODE ANN. Sections 31-7-107 [1972]) and these local entities' administrators attest to the accuracy of these inventories, the state is already achieving the objective of accounting for fixed assets of these entities.

Additionally, MISS. CODE ANN. Section 7-7-211 (e) (1972) authorizes financial audits of local governmental entities, and the Department of Audit's practice is to perform these audits annually. In accordance with the Generally Accepted Accounting Standards (GAAS) SAS AU 230.11 of the American Institute of Certified Public Accountants, the department's auditor or contract auditor conducting the financial audit must have a reasonable basis to form an opinion that the value of these entities' fixed asset inventories is accurate in order to render an opinion on the financial condition of these local governmental entities. If the value of the fixed assets represents a material amount to a local governmental entity, the department's auditor or contract auditor would conduct appropriate audit steps, which could include a physical property inventory, to verify the accuracy of the fixed asset value reported on the entity's financial statement in accordance with SAS AU 230.01 and .12 of the American Institute of Certified Public Accountants.

The department's practice of conducting fixed asset audits of counties and public school districts duplicates effort and unnecessarily depletes staff resources.

Therefore, because counties and public school districts are already conducting annual fixed asset audits in response to the Department of Audit's requirements and because auditors from the department's Financial and Compliance Audit Division (or contract auditors) must also provide reasonable assurance of the value of counties' and public school districts' fixed asset inventories as part of their annual financial audits, the department's practice of conducting fixed asset audits of these entities duplicates effort and unnecessarily depletes staff resources.

The information that the Department of Audit obtains from these fixed asset audits is not used as part of the state's Consolidated Annual Financial Report because the source data for the fixed asset values for state agencies and universities reported in the CAFR is compiled from records that agencies individually prepare and submit to the Department of Finance and Administration.

The Department of Audit's practice of conducting fixed asset audits of county governments and public school districts has reduced the amount of time and staffing available to conduct fixed asset audits of state agencies and universities, which are specifically required by law.

The practice of conducting fixed asset audits of counties and public school districts has increased the workload for the Property Audit Division (which currently has five auditors) to the point that in FY 1997 the Department of Audit began using staff of the Average Daily Attendance Audit Division (which currently has nine auditors) to accomplish the auditing workload. Despite this reassignment of staffing resources, in the period FY 2004 through FY 2006, the department conducted a greater percentage of its fixed asset audits at counties and public school districts (57%), which are not required by state law, than at state agencies and universities (43%), which are required by state law. The practice of conducting audits not specifically required by law reduces the amount of time and staffing available to conduct the fixed asset audits that are specifically required by law (i.e., auditing fixed assets of state agencies and universities). Also, it fulfills the responsibilities of the local governments at the expense of the state.

From FY 2004-FY 2006, the department conducted a greater percentage of its fixed asset audits at counties and public school districts, which are not required by state law, than at state agencies and universities, which are required by state law.

Since the Department of Audit's regulations do not require state agencies and universities to conduct annual fixed asset audits as they do for counties and public school districts, if the department does not conduct a fixed asset audit at a state agency or university (because of the amount of time and staffing devoted to fixed asset audits not specifically required by law), the risk of loss of state assets is increased.

Average Daily Attendance Audit Division

Risks Addressed by the Department of Audit's Average Daily Attendance Audit Division

Mission and Responsibilities of the Average Daily Attendance Audit Division

State law gives the Department of Audit responsibilities for verifying the validity and accuracy of the reporting process and internal controls that the schools in the public school district use to report their attendance data.

According to MISS. CODE ANN. Section 37-37-3 (1972), the Department of Audit, through the Average Daily Attendance Audit Division, is:

> *. . .to determine the correctness and accuracy of all reports made to the State Department of Education by any school district or school official concerning the number of educable students in any school district, the number of students enrolled in any school district, the number of students in average daily attendance in any school district, and the number of students being transported or entitled to transportation to any of the public schools of this state.*

In addition to auditing school attendance data, since FY 1997, the Average Daily Attendance Audit Division's current staff of nine compliance auditors has assisted the Property Audit Division in accomplishing its property audit responsibilities. Division staff have performed fixed asset verification inventories of the public school districts in the summer months under the department's general authority in MISS. CODE ANN. Section 7-7-211 (1972). Also, the division's staff have performed verification audits of local government-owned vehicle markings in accordance with MISS. CODE ANN. Section 25-1-87 (1972). (See page 37.)

Summary of Risks that the Average Daily Attendance Audit Division Addresses

If the Average Daily Attendance Audit Division does not ensure accurate reporting of student data, school districts could receive the incorrect amount of funding.

PEER determined that the statutory responsibilities of the Average Daily Attendance Audit Division do not address any Level 1 or 2 risks that directly impact any state, county, or other public office annual financial report. However, if the division does not ensure accurate reporting of student data, school districts could receive the incorrect amount of funding. Also, while an Average Daily Attendance Audit Division audit could result in recovered property, the actual financial or fixed asset value information for the annual audit comes from the public school districts' records.

PEER also determined that the Average Daily Attendance Audit Division has no Level 4 risks, which are those immaterial to the financial condition, effectiveness, or efficiency of the state or public school districts.

According to PEER's analysis, the statutory responsibilities of the Average Daily Attendance Audit Division address Level 3 risks. (See page 4 for an explanation of PEER's theory of accountability risks to state and local government and see pages 81 through 82 of Appendix A for the responsibilities assigned to the Average Daily Attendance Audit Division.)

The following section contains a discussion of how the division's operations address the risks assigned.

Conclusions Regarding Operations of the Average Daily Attendance Audit Division

Prior to the 2006-07 school year, the Department of Audit fulfilled its statutory responsibilities for verifying that the public school districts submitted accurate student attendance data to the Mississippi Department of Education. However, with the launch of the Mississippi Student Information System on August 1, 2006, the department has not adequately planned its compliance audits of student attendance data, which could increase the risk of districts receiving the incorrect amount of funding.

Prior to the 2006-07 school year, the Department of Audit fulfilled its statutory responsibilities for verifying that the public school districts submitted accurate student attendance data to the Mississippi Department of Education.

PEER determined that the Average Daily Attendance Audit Division fulfilled its audit responsibilities for student information from the public school districts prior to the 2006-07 school year. Specifically, the division achieved an effective compliance audit system for the public school districts through its:

- statewide organizational concept to accomplish its three to six compliance audits of the 150 school districts with 856 schools;
- operational concept to accomplish its statewide compliance audits and reporting requirements of audit results in accordance with standardized reporting formats;
- established policies and procedures to ensure accuracy and reliability of the student count data;
- well-documented audit reports to the school districts;
- comprehensive and detailed annual average daily attendance reports to the Governor, chairs of the Senate and House of Representatives education committees, State Board of Education, State Superintendent of Education, and Public School Building Fund.

  These reports identify total student count discrepancies with school counts that were reported to the Mississippi Department of Education and the Public School Building Fund in excess (103%) of the average daily attendance actually counted by the Department of Audit. Also, the reports compare reported average daily attendance with the number actually counted students with totals for the districts and the state and the reported average daily attendance for the current and previous school years. Finally, the reports identify any statewide decrease or increase in students.

The Department of Audit has not adequately planned its compliance audits of the Mississippi Student Information System, which the public school districts began using to report student attendance data on August 1, 2006.

In the 2004 Regular Session, the Legislature amended MISSISSIPPI CODE ANNOTATED Title 37, Chapter 37, which governs the Department of Audit's responsibilities for auditing the student data that the public school districts and their schools must report to the Mississippi Department of Education. These changes were made to implement a new electronic-based Mississippi Student Information System that the department began using for the student data reports from public school districts and their schools, effective August 1, 2006.

Under the new Mississippi Student Information System, the division's auditors will perform compliance audits of student data in this electronic-based system to verify the validity, reliability, and accuracy of expanded student information.

This amended law changed the auditing process for the Department of Audit's auditors for this student data. Under the auditing system in effect through 2005-06 School Year, the auditors performed a physical head count of all students in every state public school district between three and six times annually to verify the accuracy of the school districts' student attendance and bus transportation reports. Under the new Mississippi Student Information System, the auditors will perform compliance audits of the student data in this electronic-based system to verify the validity, reliability, and accuracy of expanded student information. MISS. CODE ANN. Section 37-37-7 (1972) states that the department's auditing for the timeliness, process, and accuracy of student data should include, but not be limited to, student enrollment, attendance, transportation, absenteeism, graduation and dropouts, and other student data and administrative functions as deemed necessary.

When PEER requested the audit plan that the Department of Audit's auditors would use in their audits of the Mississippi Student Information System, the department provided a one-page audit process document for the 2006-07 School Year. This process requires the assigned auditor to:

- notify the school district superintendent in writing of the audit date, the necessary student management system reports, the necessary supporting documentation, and some administrative issues;

- hold an entrance conference with the school district superintendent or their representative;

- conduct an audit process that checks attendance documentation, timeliness of release/transfers, the Department of Audit-designated monthly reports, and other necessary data;

- report how the school district and its school(s) verify the procedures stated in their MSIS Data Collection Policy;

- conduct an exit meeting only if problems need to be resolved immediately; and,

- provide the district with an audit report outlining findings within one week from the end of the audit.

The Department of Audit did not provide PEER with any other audit work plan that their auditors, who are located statewide, were to use in their compliance audits of the school districts and their schools. The department's auditors do have access to the user manual for the Mississippi Student Information System and will use it in the audit process. PEER also did not find any planning document for how the Department of Audit will use the database of this student information system for future audit management analysis, planning, operations, and reporting purposes.

The Department of Audit has not prepared a standardized written audit plan for these critical education audits that meets the fieldwork planning standards in the Yellow Book Standards of the United States Government Accountability Office.

Another reason that the auditors for the Average Daily Attendance Audit Division need a standardized audit plan is because they perform audits alone and have no input or immediate supervision from other auditors.

The Department of Audit has not prepared a standardized written audit plan for these critical education audits that meets the fieldwork planning standards in the Yellow Book Standards of the United States Government Accountability Office. This audit plan should include the audit objectives, scope, legal and regulatory requirements, criteria, methodology for data gathering and analytical methods.

The department must ensure that these new compliance audits of public school districts are performed in a comprehensive and detailed manner. These type of audits are necessary for the department to determine the validity and accuracy of the Mississippi Student Information System reporting process and internal controls that schools use to produce adequate information regarding student data in this student information system and the student administrative package of the Mississippi Department of Education. Without such information, the state and public school districts are placed at an increased risk of the reported public school student data being erroneous and resulting in incorrect state funding of public school districts through the Mississippi Adequate Education Program.

Performance Audit Division

Risks Addressed by the Department of Audit's Performance Audit Division

Mission and Responsibilities of the Performance Audit Division

MISS. CODE ANN Section 7-7-211 (1972) grants general authority to the Department of Audit to conduct performance audits under certain conditions. Specifically, this provision states:

> *The department shall have the power and it shall be its duty: …*
>
> *(c) To study and analyze existing managerial policies, methods, procedures, duties and services of the various state departments and institutions upon written request of the Governor, the Legislature or any committee or other body empowered by the Legislature to make such request to determine whether and where operations can be eliminated, combined, simplified and improved;*

The department has assigned these responsibilities to the Performance Audit Division.

Summary of Risks that the Performance Audit Division Addresses

According to PEER's analysis, one of the division's responsibilities, a review of the State and School Employees' Life and Health Plan, addresses a Level 1 risk. The Performance Audit Division's other statutory responsibilities address Level 3 and Level 4 risks. (See page 4 for an explanation of PEER's theory of accountability risks to state and local government and see pages 105 through 108 of Appendix A for the responsibilities assigned to the Performance Audit Division.)

The following section contains a discussion of how the division's operations address the risks assigned.

Conclusions Regarding Operations of the Performance Audit Division

The Performance Audit Division produces statutorily mandated reports that the State Auditor assigns to the division for completion. The division produces these reports upon request as provided for in Section 7-7-211 (c). Additionally, the division performs assistance work at the request of legislators and provides internal assistance to other operating divisions of the Department of Audit. However, the division is burdened by the statutory requirement to produce reports on vehicle procurements and emergency purchases, neither of which makes a material contribution to the improved efficiency or effectiveness of government.

The State Auditor has assigned the responsibility of producing several statutory reports to the Performance Audit Division (see page 105 of Appendix A). PEER notes that the division produces these reports as required by law. The division also produces other reports in accordance with Section 7-7-211 that are not mandatory but may be requested by public officers.

One of the reports that state law assigns to the Department of Audit is the review of the State and School Employees' Life and Health Plan. This responsibility addresses a Level 1 risk because this program affects state government, school districts, and their employees. The insurance plans collected approximately $600 million in health insurance premiums and $15 million in life insurance premiums for FY 2006. The amount of money involved in the program could affect the financial condition of the state, and if the program were not administered properly, it could cause injury to these employees.

In recent years, state law (Title 57 of the MISSISSIPPI CODE) has directed the Department of Audit to monitor costs associated with and results of certain economic development bond programs administered by the Mississippi Development Authority. The State Auditor has assigned this responsibility to the Performance Audit division. Authorizing legislation for the bond programs sets maximum amounts for which the Department of Audit may be reimbursed over the life of the bonds for its monitoring activities. As bonds are sold and the department begins monitoring costs and activities associated with the bond programs, the Department of Audit submits invoices to MDA requesting reimbursement for actual expenses incurred. Since FY 2003, the department has received $187,796 in reimbursements for its bond monitoring activities, as listed below.

- ***Nissan:*** Maximum reimbursement amount, $100,000; Amount reimbursed, $90,809

- ***Northrop-Grumman:*** Maximum reimbursement amount, $100,000; Amount reimbursed, $39,385

- ***Land, Water and Timber projects:*** Maximum reimbursement amount, $100,000; Amount reimbursed, $50,000

- ***Southaven Towne Center:*** Maximum reimbursement amount, $25,000; Amount reimbursed, $3,263

- ***Bloomfield Properties/Mississippi Braves:*** Maximum reimbursement amount, $25,000; Amount reimbursed, $4,339

Several other provisions of the CODE address responsibilities assigned to the Performance Audit Division. These include reviews of state vehicle procurements and emergency purchases. Authority also exists for the division to conduct reviews of the Prison Industries program (in conjunction with PEER) and audits of the Personal Services Contract Review Board. In addition, the Department of Audit uses staff of the Performance Audit Division to respond to requests for information on a variety of subjects.

Vehicle Procurement Reviews

Because during the 2006 session the Legislature made major changes in the way state agencies procure and manage vehicles, the legislative mandate that the Department of Audit report on vehicle procurements is no longer necessary to efficient and effective management.

The Legislature has considered several approaches to overseeing state agency procurement of vehicles over the years. From 1950 to 2001, the principal method was to set out in statute how many passenger vehicles an agency could possess and direct agencies that they must make purchases in accordance with the rules of the State Fiscal Management Board (now the Department of Finance and Administration).

In 2001, the Legislature changed its thrust respecting the management of vehicles. It repealed CODE Section 25-1-85 (1972), which set out the number of passenger vehicles an agency may possess, and replaced these controls with the provisions in Chapter 561, *Laws of 2001*. This general law amended MISS. CODE ANN. Section 25-1-77 (1972) and provided for the following:

- The Department of Finance and Administration would ascertain the appropriate type of vehicles to be purchased by agencies but not regulate the number of vehicles agencies procured; and,

- The State Auditor would annually audit compliance with these provisions of law and report vehicle purchases to the Appropriations committees and to the Joint Legislative Budget Committee.

Concern over vehicle proliferation continued throughout the first years of the current decade. In 2006, the Legislature again moved to change the methods used to procure vehicles. Chapter 537, *Laws of 2006*, created a Bureau of Fleet Management within the Department of Finance and Administration and gave the bureau complete control over the acquisition and assignment of state agency vehicles, as well as title to such vehicles. This legislation created the legal assurance that a single state agency, DFA, could ensure that agencies procured the vehicles needed and could actually take possession of unneeded vehicles and transfer them between agencies. Agencies will now have to justify their purchases through DFA and any excess vehicles may be moved to other agencies. Under the new regulatory program, the Department of Finance and Administration will have at its disposal complete records regarding the procurement practices of agencies as well as a complete inventory of vehicle type and use. Thus it should no longer be necessary for the Department of Audit to audit vehicle purchases.

In 2006, the Legislature created a Bureau of Fleet Management within the Department of Finance and Administration and gave the bureau complete control over the acquisition and assignment of state agency vehicles, as well as title to such vehicles. Thus it should no longer be necessary for the Department of Audit to audit vehicle purchases.

The department's vehicle management report consumes approximately thirty hours of staff time per year that could be better expended on other tasks to review areas wherein government programs and activities could be improved.

Additionally, any issues regarding proper use of vehicles such are proper deployment of work and passenger vehicles could be addressed in an agency whenever the department conducts an internal controls review or by the Investigative Division, if there is cause to believe that vehicles are being misused.

Emergency Purchases

The legislative mandate requiring the Department of Audit to prepare a report of emergency purchases results in the department's recompiling of emergency purchase information already maintained by the Department of Finance and Administration and Department of Information Technology Services.

In 2002 the Legislature adopted Chapter 563, *Laws of 2002*, amending CODE Section 31-7-13 (1972) to require an emergency purchase report from the Department of Audit. Specifically, the amendment to paragraph J provided:

> *On or before September 1 of each year, the State Auditor shall prepare and deliver to the Senate Fees, Salaries and Administration Committee, the House Fees and Salaries of Public Officers Committee and the Joint Legislative Budget Committee a report containing a list of all state agency emergency purchases and supporting documentation for each emergency purchase.*

Since this mandate became effective, the department's Performance Audit Division has compiled this report annually as required.

Reports on emergency purchases consist of schedules produced from information maintained by the Department of Finance and Administration's Office of Purchasing and Travel, the Department of Finance and Administration's Bureau of Building, and the Department of Information Technology Services (ITS). These schedules show all agencies and Institutions of Higher Learning emergency purchases made during the previous fiscal year.

PEER questions the need for this statutory report for the following reasons:

- The reports recap information maintained by the Department of Finance and Administration and ITS. Such information could be distributed by those agencies upon request without requiring the Department of Audit to recompile the information.
- Exceptions to an individual emergency purchase could be made and reported when the department prepares an internal controls review of a state agency.
- The elimination of this report mandate could free the department from approximately forty hours of work annually for a report that makes only an

incidental contribution to effective and efficient management of state government.

Investigative Division

Risks Addressed by the Department of Audit's Investigative Division

Mission and Responsibilities of the Investigative Division

State law gives the Department of Audit investigative responsibilities regarding alleged or suspected violations of state laws in any state, county, or other public offices. The department has assigned these responsibilities to the Investigative Division.

According to the department's FY 2005 annual report, the department has established the following mission for the Investigative Division:

> *. . .investigating allegations or suspected violations of the laws of the State of Mississippi by any state, county, or local public official or other individual responsible for public assets. The primary focus of the Division is to detect and deter the misuse or misappropriation of public assets in the purchase, sale or use of any supplies, services, equipment and other property. The staff assures proper use of public assets through recoveries and prosecution when violations are detected.*

The annual report also states that "government waste, fraud and abuse represent a hidden tax on every family in Mississippi. This division's responsibility is to cut that hidden tax."

Summary of Risks that the Investigative Division Addresses

PEER determined that the statutory responsibilities of the Investigative Division do not address any Level 1 or 2 risks that directly impact any state, county, or other public office's annual financial report.

PEER also determined that the Investigative Division has no Level 4 risks, which are immaterial to the financial condition, effectiveness, or efficiency of the state or local governments.

According to PEER's analysis, the statutory responsibilities of the Investigative Division address Level 3 risks. (See page 4 for an explanation of PEER's theory of accountability risks to state and local government and see pages 103 through 105 of Appendix A for the responsibilities assigned to the Investigative Division.)

The following section contains a discussion of how the division's operations address the risks assigned.

Conclusions Regarding Operations of the Investigative Division

The Department of Audit has established an organization, staffing, and case management system to investigate and resolve alleged violations of state fiscal oversight and accountability laws and to recover lost public funds or property.

The Department of Audit fulfills its statutory responsibilities for investigating alleged illegal practices of elected officials, private citizens, public officials, and governmental entities.

Numerous state laws empower the Department of Audit to investigate alleged illegal practices of elected officials, private citizens, public officials, and governmental entities.

To accomplish its responsibilities, the Investigative Division staff:

- conducts investigations of alleged embezzlement, misuse and/or misappropriation of public funds or public property;
- investigates audit exceptions dealing with missing funds or illegal fund expenditures of any state, county, or other public offices; and,
- tracks, accounts, and reports the repayments resulting from financial audit exceptions.

The Investigative Division also assists prosecutors in criminal cases and conducts a fraud prevention and investigation program for the state's Hurricane Katrina Homeowner Assistance Program under the terms of a grant from the Mississippi Development Authority.

As noted previously, the division's investigations of allegations of wrongdoing address Level 3 risks, as categorized by PEER. While the investigations are important as a deterrent and for recovery of misspent funds, they do not impact information contained in or audits of the state's Comprehensive Annual Financial Report.

The Department of Audit has organized its statewide Investigative Division staff into units to accomplish its regular and special investigations.

When the Department of Audit receives an allegation of wrongdoing (usually from department auditors, contract auditors, elected officials, or citizens) the Investigative Division director reviews the information provided and determines whether the allegation is within the authority of the Department of Audit. If the director has questions regarding the department's authority to investigate a complaint, he consults with the division's deputy directors, the department's Special Assistant Attorney General and/or the department's Technical Assistance Division staff. If the division director concludes that the department does not have statutory authority to investigate an allegation, he contacts the complainant and explains the reasons for the rejection. If the division director concludes that the department has sufficient authority to investigate an allegation, he assigns the allegation to a division manager and agent, who open a case file and begin the investigation. A case file with a unique case number is also opened in the electronic case management system.

The Department of Audit's Investigative Division has two units, Regular Case Investigations and Special Project Investigations, to accomplish its statewide mission with a deputy director who is an experienced certified law enforcement officer heading each unit. The Regular Case unit is divided into a Northern and a Southern geographical area, with each one having part of central Mississippi in it. This unit performs the investigations associated with alleged violations of state law in any state, county, or other public offices. The Special Project unit conducts investigations statewide that focus on specific activities such as Hurricane Katrina relief and the Mississippi beef plant, undercover activities, and joint investigations with Federal Bureau of Investigation or Internal Revenue Service.

The Investigative Division director staffs each investigative unit with a mix of certified law enforcement officers and accounting auditor agents, three of whom are certified public accountants, due to the nature of the investigations that require law enforcement responsibilities, as well as detailed analysis of financial and other documents. The division director bases the enforcement staff assignments on factors such as current workload and anticipated growth or decline in workload.

The Department of Audit's case management system provides real-time capability to evaluate statewide investigative operations.

The division's case management system consists of four components: an investigative case management software system called Legal Edge; a word processing component for the agents' investigative reports; a spreadsheet component for analytical documents; and a computerized recordkeeping system for tracking and controlling movement of evidence.

The case management system provides the Department of Audit and Investigative Division managers and staff with real-time capability to evaluate statewide investigative operations. The system can be used to manage the workload of individual agents, investigative units, or financial demands status. For example, the Investigative Division managers can use system reports for any period since January 1, 2000, to determine the opened and closed cases of individual agents, investigative units, or investigative areas; the collection status of all open financial demands; or the number of opened and closed cases by county location or type of governmental entity.

The division director, deputy directors, and supervising senior special agent conduct formal reviews of open investigation files every six months. Prior to closing each case, division managers also review completed investigation case files in order to determine whether the files contain required information and documentation to support the department's formal action, such as a demand for payment. If an investigation involves a criminal matter, the division's staff provides the appropriate prosecutor with a copy of the case file, including case evidence.

During the period FY 2002 through 2006, nearly eighty percent of the division's investigations focused on alleged misuse or misappropriation at the local government level.

From FY 2002-FY 2006, the department collected $5,134,136 from repayment demands and disbursed $3,554,111 to entities for which the State Auditor demanded repayments of misspent public funds.

PEER reviewed the division's investigative actions for fiscal years 2002 through 2006. During that period, the division opened 694 cases and closed 853 cases. Of the 694 cases opened, 552 (80%) stemmed from investigations of officials or employees of local governmental entities—i.e., counties, municipalities, and public school districts. As illustrated in Exhibit 4, page 57, during this five-year period the Department of Audit collected $5,134,136 from repayment demands and disbursed $3,554,111 to entities for which the State Auditor demanded repayments of misspent public funds. The disbursements represent principal and interest amounts. In addition, a portion of the repayments collected by the Department of Audit is disbursed to (retained by) the department to offset investigative expenses. (Due to timing differences—some collections represent repayment demands issued in fiscal years prior to 2002 and repayment schedules which allow individuals to repay the department "over time"—the total amounts for collections and disbursements in Exhibit 4 do not reconcile. The exhibit represents only a "snapshot" of the department's collections and disbursements.)

Exhibit 4: Collections and Disbursements Resulting From the Department of Audit's Investigative Efforts, FY 2002 through FY 2006

Entity	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Collections						
(for 697 cases)						
Counties	$541,492	$1,288,449	$452,044	$497,536	$580,278	$3,359,798
Universities/Colleges	102,667	52,766	23,736	128,759	53,764	361,692
Municipalities	41,846	145,539	68,811	81,183	135,116	472,495
Public Schools	26,870	77,211	260,929	91,728	101,620	558,358
State Agencies	0	30,500	4,737	18,056	25,425	78,718
Other*	600	97,802	45,490	28,933	130,249	303,074
Total	$713,475	$1,692,266	$855,748	$846,196	$1,026,452	$5,134,136
Disbursements						
(for 546 cases)						
Counties	$91,632	$635,449	$415,623	$172,027	$351,909	$1,666,639
Universities/Colleges	0	32,638	23,916	52,241	15,369	124,164
Municipalities	6,908	84,437	3,180	42,107	71,023	207,655
Public Schools	14,259	61,670	194,747	8,416	60,260	339,352
State Agencies	0.00	96,740	10,291	4,493	0	111,523
Other*	249,557	419,398	14,300	20,973	99,379	803,607
State Auditor's Office	48,939	77,678	51,070	33,297	90,187	301,170
Total	$411,296	$1,408,009	$713,126	$333,554	$688,127	$3,554,111

NOTE: "Collections" include principal, interest, and cost recovery amounts paid by individuals and/or their bonding companies. The department deposits collections into the agency's Financial Exceptions Clearing Account. "Disbursements" are payments made from the Financial Exceptions Clearing Account to the entities that employed individuals from whom the State Auditor demanded repayments of misspent public funds. A portion of the repayments collected by the Department of Audit is disbursed to (retained by) the department to offset investigative expenses.

* "Other" includes local/state government entities such as public hospitals, boards, and commissions.

SOURCE: PEER analysis of Department of Audit records

Technical Assistance Division

Risks Addressed by the Department of Audit's Technical Assistance Division

Mission and Responsibilities of the Technical Assistance Division

State law gives the Department of Audit responsibilities regarding establishment of accounting processes, forms and reports, as well as assisting and training state and local government officers and employees. The department has assigned these responsibilities to the Technical Assistance Division.

As described in Exhibit 1 on page 9, the Technical Assistance Division has three primary duties:

(1) designing uniform accounting systems for local governments;

(2) providing accounting and legal compliance assistance to the Department of Audit's staff and state and local officials and employees; and,

(3) conducting training seminars for departmental personnel and local governments.

In addition, the division receives and files certain statutorily required reports submitted by various governmental entities.

Summary of Risks that the Technical Assistance Division Addresses

PEER determined that one of the Technical Assistance Division's responsibilities addresses a Level 1 risk; the other responsibilities address Level 2, 3, and 4 risks. (See page 4 for an explanation of PEER's theory of accountability risks to state and local government and see pages 110 through 116 of Appendix A for the responsibilities assigned to the Technical Assistance Division.).

The following section contains a discussion of how the division's operations address the risks assigned.

Conclusions Regarding Operations of the Technical Assistance Division

As required by state law, the Department of Audit's Technical Assistance Division has established generally accepted accounting principles for public offices of the state and its subdivisions and provides assistance and training to personnel of state and local governmental entities regarding such. However, the division does not ensure that municipalities have annual audits conducted and submitted to the division for review and filing. In addition, the department does not collect fees for providing training courses and automatically receives statutorily required resolutions and agreements for which it has no use.

Establishment of Accounting Principles and Provision of Technical Assistance and Training

The Technical Assistance Division has established accounting principles and provides assistance and training to personnel of state and local governmental entities.

Establishment of Generally Accepted Accounting Principles for the State and Its Subdivisions

Statutory authority for the division's responsibility that addresses a Level 1 risk is found in MISS. CODE ANN. § 7-7-211 (a) (1972), which empowers the Department of Audit to identify and define generally accepted accounting principles for all public offices of the state and its subdivisions. In accordance with certain statutory provisions categorized by PEER as Level 2 risks (because they primarily relate to local governmental entities or public schools)—MISS. CODE ANN. § 7-7-211 (b), § 19-11-13, § 21-35-11, § 37-37-1—the department, through the Technical Assistance Division, has developed accounting guides to assist governmental entities. For example, the department's website provides access to the following guides:

- *County Financial Accounting Guide;*
- *Municipal Audit and Accounting Guide;* and,
- *Financial Accounting Manual for Mississippi Public School Districts.* (As of July 1, 2006, the State Department of Education became responsible for developing accounting policies for public schools.)

Accounting rules and regulations for state agencies are included in the Mississippi Agency Accounting Policies and Procedures manual promulgated by the Department of Finance and Administration.

The Technical Assistance Division's responsibilities addressing Level 3 risks involve designing various accounting, budgeting, and expenditure forms and reports for use primarily by local governmental entities. The department has designed the required forms and included them within the accounting manuals for counties, municipalities, and public schools.

Provision of Technical Assistance

MISS. CODE ANN. 7-7-211 (b) (1972) gives to the Department of Audit a responsibility that addresses a Level 2 risk as categorized by PEER. This section provides the department with authority to assist public offices of regional and local subdivisions with the installation of accounting, budgeting, and financial reporting systems. The Technical Assistance Division accomplishes this responsibility primarily by responding to telephone inquiries of state and local officers and employees. During FY 2006, division staff responded to 8,079 telephone inquiries in which they offered oral assistance regarding various accounting and auditing issues. In addition, division staff provided 479 letter responses to inquiries from state and local officers and employees. The Technical Assistance Division also produces a monthly newsletter—***Technicalities***—that summarizes pertinent Attorney General Opinions, new legislation, and departmental policy positions on various accounting and auditing issues. During FY 2006, the Department of Audit disseminated by electronic means and the U. S. Postal Service 46,142 copies of the newsletter to public officials, employees and practitioners.

Provision of Training

MISS. CODE ANN. § 7-7-211 (l) (1972) provides the Department of Audit with the authority to "establish training courses and programs for the personnel of the various state and local governmental entities under the jurisdiction of the Office of the State Auditor." The section states that the courses and programs shall include topics on internal control of funds, property and equipment control and inventory, governmental accounting and financial reporting, and internal auditing. In addition, the section authorizes the department to collect a fee from the participants and authorizes state and local governmental entities to pay the fee and related travel expenses for employees who participate in training courses. During FY 2006, Technical Assistance Division staff coordinated nine professional development training classes for departmental staff. In addition, division staff served as instructors or panelists for fifty-one training courses sponsored by professional associations or organizations. The division's provision of training courses addresses Level 3 risks, as categorized by PEER.

No Assurance of Municipal Audits

Although the Department of Audit reports annually to the Legislature the municipalities that submit audit or compilation reports to the department for review and filing as required by state law, the department does not ensure that non-reporting municipalities comply with statutory audit or compilation provisions.

MISS. CODE ANN. § 21-35-29 (1972) provides the Department of Audit with the authority to "make such rules, regulations and classifications, and prescribe such forms as may be necessary to carry out" statutory requirements regarding municipal financial records and audits of such. The department, in cooperation with the Center for Governmental Technology (Mississippi State University, Cooperative Extension Service, Community Development Department) has developed a *Municipal Audit and Accounting Guide*, with the most recent edition being the fifth edition dated July 1, 2003. The *Municipal Audit and Accounting Guide* addresses topics such as municipal budgeting, accounting system and special procedures—i.e., travel, petty cash and municipal court and police operations.

Governing authorities of every municipality are required by MISS. CODE ANN. § 21-35-31 to have their books audited annually by either an accountant approved by the State Auditor or a certified public accountant. The section further states that such audits shall be made upon requirements promulgated by the Department of Audit. (As noted previously, the purpose of a financial statement audit is to determine whether an entity's statements are prepared in conformity with specified standards, usually generally accepted accounting principles.) With regard to any municipality with a population of three thousand or less, CODE Section 21-35-31 states that such municipality may employ an accountant or auditor, approved by the department, to prepare annually a compilation report and a compliance letter, in a format prescribed by the department, in lieu of an annual audit. (A compilation report and compliance letter provide assurances with regard to certain accounting and compliance responsibilities of the municipality.) The department's *Municipal Audit and Accounting Guide* includes requirements for municipal audits and compilations, such as legal requirements, guidelines for municipal auditors, types of audits, and examples of reports and schedules.

MISS. CODE ANN. § 21-35-31 (1972) requires municipalities to provide two copies of such reports to the Department of Audit within thirty days of the completion of an audit or compilation. Staff of the department's Technical Assistance Division receive and date stamp audits or compilation reports as municipalities submit them. The staff reviews the reports to ensure that they comply with departmental audit requirements and formats. In January of each year (three months after the close of the municipal fiscal year on September 30), Technical Assistance staff send a letter to each municipality that has not filed a report with the department. The staff also sends follow-up letters in March of each year to those municipalities that have not responded to the first reminder letter and continue to be delinquent in filing the required reports.

From FY 2000-FY 2004, the department did not take action to ensure municipalities' compliance with requirements for filing audit or compilation reports. In FY 2000, 34% of municipalities with populations less than 3,000 did not comply with the requirements.

At the end of each fiscal year, the State Auditor, as required by MISS. CODE ANN. § 21-35-31 (1972), submits a letter to the Legislature detailing the number of municipalities that complied with statutory audit or compilation report submission requirements and the names of municipalities that did not comply with the reporting requirements. PEER reviewed the letters submitted by the State Auditor to the Legislature during calendar years 2002 through 2006 and concluded that the Department of Audit complied with its statutory mandate to inform the Legislature regarding municipalities' compliance or non-compliance with audit or compilation reporting requirements. As illustrated in Exhibit 5, page 63, some municipalities did not comply with the statutory reporting requirements during fiscal years 2000 through 2004. The degree of non-compliance ranged from a low of 4% for municipalities with a population greater than 3,000 residents in FY 2000 to a high of 34% for municipalities with a population less than 3,000 residents in FY 2000. PEER considers municipalities' compliance with statutory audit provisions to be a Level 2 risk that could result in inaccurate reporting or injury to citizens or investors if it is not accomplished.

Other than reporting to the Legislature the number (and the names for FY 2003 and FY 2004) of municipalities that did not submit required audit or compilation reports, the department did not take action during the fiscal years reviewed by PEER to ensure compliance by non-reporting municipalities. State law clearly provides the department with authority to ensure that municipalities comply with statutory audit and compilation reporting requirements. For example, MISS. CODE ANN. § 7-7-218 (1972) provides the State Auditor with the authority to "proceed to make the report or cause the report to be made" for any officer or employee of the state or subdivision that has refused or failed to make any report to the department. State law further provides that the "expense for such report shall be personally borne by said officer or employee." Because the state Attorney General has opined that the term "subdivision" as used in Section CODE 7-7-218 applies to municipalities, the provisions of this section could be used by the department to ensure compliance by non-reporting

Exhibit 5: Municipalities in Non-Compliance With Statutory Audit/Compilation Reporting Requirements, FY 2000 through FY 2004

Fiscal Year	Size of Municipality	Number of Municipalities	Number Not Submitting Audit/Compilation Reports	% Not Submitting Audit/Compilations Reports
2000	<3,000	219	75	34%
	>3,000	78	3	4%
2001	<3,000	219	50	23%
	>3,000	78	7	9%
2002	<3,000	219	42	19%
	>3,000	78	4	5%
2003	<3,000	216	35	16%
	>3,000	81	9	11%
2004	<3,000	216	33	15%
	>3,000	81	16	20%

NOTE: There is a time difference between the fiscal year for which the municipality has an audit or compilation conducted and the calendar year in which the State Auditor reports the municipalities' compliance or non-compliance to the Legislature. For example, the State Auditor's calendar year 2002 letter to the Legislature includes audit/compilation information for FY 2000. PEER reviewed the State Auditor's letters for calendar years 2002 through 2006 for audit/compilation information for fiscal years 2000 through 2004.

SOURCE: PEER analysis of Department of Audit reports to the Legislature.

municipalities. In addition, the Attorney General has opined that if an officer or employee of the state or subdivision fails or refuses to make any report as set forth in CODE Section 7-7-218 (1972), that failure or refusal constitutes a breach of his or her faithful performance of duty and recovery may be sought from the applicable bond.

Municipal officials have a fiduciary responsibility to manage the financial affairs of a locality in a prudent manner. Such management would include annual audits or compilations to give assurance to residents that funds available to the municipality are expended in a legal and appropriate manner. Because the Department of Audit does not audit municipalities directly, relying instead on audits contracted through certified public accountants or accountants, it is important that the department ensure municipal officials' compliance with state law by having annual audits or compilations conducted and submitted to the department.

No Collection of Fees for Training

Despite having the statutory authority to do so, the Department of Audit does not collect fees for providing training courses and programs for personnel of state and local governmental entities. As a result, the department is forgoing a potential source of revenue that it could use to fund its training program.

As stated on page 58, the Department of Audit has authority to establish training courses and programs for the personnel for the various state and local governmental entities. In addition, MISS. CODE ANN. § 19-3-77 (1) (1972) establishes programs of professional education for county purchase clerks, receiving clerks and inventory control clerks. The section requires the department to design the curriculum for each program with program administration, coordination, delivery and attendance verification being handled by the Community Development Department of the Mississippi Cooperative Extension Service (MCES). CODE Section 19-3-77 also authorizes the department to collect "fees in a reasonable amount" to defray expenses associated with the professional education program. During 2006, the MCES Community Development Department, in consultation with the Department of Audit's staff, set the registration fee for the certification courses at $30 per participant.

Technical Assistance Division staff believe that the imposition of a training fee could possibly deter state agencies and other governmental entities from enrolling their employees in training courses in which the department's staff serve as instructors or trainers and could be considered an unfunded mandate.

The Department of Audit has assigned staff of the department's Technical Assistance Division responsibility for developing course curricula and providing professional development and certification training to state and local government employees. According to the division's director, the department does not sponsor training courses or programs itself as "stand alone" events. Rather, division staff typically serve as instructors or panelists for training events sponsored by professional organizations, such as the Mississippi Society of Certified Public Accountants, Mississippi Municipal League, and others. Division staff also serve as instructors and panelists for meetings and conventions coordinated by the Community Development Department of the Mississippi Cooperative Extension Service on behalf of organizations such as the Mississippi Supervisors' Association and Chancery Clerks' Association. During FY 2006, division staff served as instructors or panelists for fifty-one training courses.

Despite having the statutory authority to do so, the Department of Audit does not collect fees for training courses and programs for personnel of state and local governmental entities. Technical Assistance Division staff believe that the imposition of a fee could possibly deter state agencies and other governmental entities from enrolling their employees in training courses in which the department's staff serve as instructors or trainers and could be considered an unfunded mandate. Division staff also contend that sponsoring organizations or groups might not invite the Department of Audit's staff to participate in meetings and conventions should the department charge fees for such participation. Technical Assistance Division staff believe that the employees' improved understanding of state laws and job-related procedures is the ultimate goal of the department's training efforts.

During FY 2006, the division's staff served as instructors or panelists for fifty-one training courses, costing the department approximately $41,000 in salaries and fringe benefits for work time spent. At least a portion of this amount could have been recouped through the collection of training fees.

While PEER agrees that the Department of Audit's staff's participation in sponsored training courses has potential benefit to state and local government employees and their entities and addresses a Level 3 risk, it is not unreasonable for the department to recoup some or all expenses associated with providing such training as authorized by state law. As noted above, during FY 2006, four Technical Assistance Division staff served as instructors or panelists for fifty-one training courses. Exclusive of travel and commodity costs, the four staff cost the department approximately $41,000 in salaries and fringe benefits for work time spent on the training courses. At least a portion of this amount could have been recouped through the collection of training fees. Given the permissive authority in at least two separate CODE sections—§ 7-7-211 (l) and § 19-3-77 (1)—for the collection of fees by the Department of Audit, it is apparent that the Legislature envisioned training related costs as being supported, to some degree, by the participants or their entities who benefited from the training. The department's collection of fees from providing training could reduce the need for appropriated general funds to support totally the department's external training programs and make such funds available for other programs of the department.

Required by State Law to Unnecessarily Maintain Documents

The Department of Audit receives and retains certain statutorily required agreements, resolutions, or reports from governmental entities, although the department does not use such documents to fulfill its fiscal oversight and accountability functions.

The division's responsibilities that address Level 4 risks involve its filing of statutorily required reports of various governmental entities on an annual or regular basis. As listed below, at least five provisions in state law require governmental entities to submit certain resolutions, agreements, or reports to the department.

- Section 17-13-11 (4): Governmental units to file interlocal agreements
- Section 21-33-47: Municipalities to file tax levy resolutions
- Section 27-31-31 (2): Municipalities to file ad valorem tax exemptions for structures within the central business district
- Section 27-31-109: Municipalities and counties to file ad valorem tax exemptions
- Section 57-64-23 (4): Intergovernmental regional economic development agreements to be filed

Technical Assistance Division staff report that they receive the statutorily required reports, date stamp, and file them either by entity name or date received. In all cases, the department has no knowledge as to the total number of resolutions or agreements that exist statewide to know whether the governmental entities have complied with the filing requirements of state law. In addition, the department's auditors do not use the agreements or resolutions to fulfill the department's fiscal oversight and accountability functions. Should an auditor need an agreement or resolution during the course of an audit, the auditor could request such documents directly from the governmental entity as part of the audit's fieldwork phase. Finally, receipt of the statutorily required agreements and resolutions becomes an archival challenge for the department due to limited on-site storage capacity in its central office in the Woolfolk State Office Building. PEER considers all of these reporting requirements to be Level 4 risks that would not cause harm to the state or local governing authorities should they not be accomplished. (See page 31 for other statutorily required agreements, resolutions, or reports also received automatically by the department.)

Support Divisions: Administrative Services and Information Technology

Risks Addressed by the Department of Audit's Administrative Services Division

Mission and Responsibilities of the Administrative Services Division

State law gives the Department of Audit responsibilities regarding general office administration and approval of cafeteria fringe benefits providers. The department has assigned these responsibilities to the Administrative Services Division.

The Administrative Services Division performs functions typical of a support division of a state agency—i.e., processes invoices, travel vouchers and purchase orders; prepares and administers the budget; procures office equipment and supplies; prepares payroll and performs accounting and personnel functions. In addition, the Administrative Services Division bills entities for which the department has performed services. The division bills entities on a bi-monthly basis and collected 100% of the revenue due the department during FY 2006. MISS. CODE ANN. § 7-7-213 (1972) requires the department to notify the State Fiscal Officer of entities that have not paid amounts due to the department. After determining that the charges are correct and due, the State Fiscal Officer notifies the defaulting entity that payment should be remitted to the department. If the defaulting entity does not make payment within thirty days, the State Fiscal Officer notifies the State Treasurer and the Department of Finance and Administration that no further warrants are to be issued to the defaulting entity until the charges are paid.

Summary of Risks that the Administrative Services Division Addresses

PEER determined that one of the Administrative Services Division's responsibilities addresses a Level 1 risk and none address Level 2 risks. Most of the responsibilities assigned to this division address Level 3 and Level 4 risks. (See page 4 for an explanation of PEER's theory of accountability risks to state and local government and see pages 79 through 81 of Appendix A for the responsibilities assigned to the Administrative Services Division.)

The following section contains a discussion of how the division's operations address the risks assigned.

Conclusions Regarding Operations of the Administrative Services Division

As authorized by state law, the Department of Audit's Administrative Services Division performs office management functions, authorizes cafeteria fringe benefits plans, and coordinates work of auditors contracted to audit the department.

State law provisions categorized by PEER as Level 3 risks and assigned to the Administrative Services Division by the Department of Audit primarily involve general office administration functions typical of most state agencies. For example, the division processes all invoices, travel vouchers and purchase orders; bills all entities for services rendered; and, prepares and administers the budget. In addition, the division procures all office equipment and supplies; prepares payroll; and, performs accounting and personnel functions.

MISS. CODE ANN. § 25-17-1 et seq. (1972) authorizes cafeteria fringe benefit plans for state agencies and local governmental entities. CODE Section 25-17-9 (2) (1972), categorized by PEER as addressing a Level 4 risk, requires the Department of Audit to compile a list of providers of cafeteria plans deemed acceptable to provide such services to state agencies and local governmental entities. Toward the end of each calendar year, the Administrative Services Division notifies cafeteria plan providers that they should either apply initially or for renewal for inclusion on the department's list of approved plan administrators. For FY 2006, the Department of Audit approved nineteen plan providers. The Administrative Services Division periodically monitors performance of the plan administrators to ensure their compliance with statutory provisions.

MISS. CODE ANN. § 7-7-216 (1972) states that the Legislature shall receive bids from an independent certified public accounting firm for a legal and compliance audit of the Department of Audit no less than once during each four-year term. While the Legislature has the responsibility for implementing this particular section of law, the Administrative Services Division would coordinate the department's involvement in such audit. PEER considers this provision to be a Level 1 risk because of the numerous statutory responsibilities assigned to the department. The department's failure to accomplish those responsibilities could cause a breach in the state's fiscal oversight and accountability structure, resulting in inaccurate reporting by and potential illegalities on the part of state and local entities.

Risks Addressed by the Department of Audit's Information Technology Division

Mission and Responsibilities of the Information Technology Division

According to the Department of Audit's *FY 2005 Annual Report*, the Information Technology Division is responsible for providing information technology services to all employees of the department and other governmental entities that must comply with departmentally issued requirements. The division also conducts computer training for auditors, assists auditors with electronic data processing audit reviews, procures computer hardware and software, develops and supports computerized applications, maintains a local area network, web server and e-mail system, and provides technical support of the department's staff.

In FY 2004, the Department of Audit received a $500,000 grant from the federal Department of Homeland Security. The department used the grant funds to contract with vendors to perform assessments of information systems of twenty state agencies that handle sizeable amounts of state funds and/or data. These assessments are ongoing. The department also secured a $10,000 grant for each county during FY 2004 from the Department of Homeland Security to be awarded directly to the county to conduct computer security assessments for the state's eighty-two counties, with the Department of Audit receiving an executive summary from each county. The assessments included tests to prevent external and internal intrusion, as well as an analysis of the entire system or systems. To date, seventy-seven counties have agreed to participate in the computer security assessments project.

The Department of Audit has not assigned any particular statutory audit responsibilities to the Information Technology Division. The division functions as a technical resource for the department, with none of its responsibilities addressing fiscal oversight and accountability risks as categorized by PEER.

Overall Conclusion: How the Department of Audit Addresses Risks to the State and Local Governments

As stated on page 3, the Department of Audit's role in the state's fiscal oversight and accountability system is of paramount importance. PEER's theory for this report is that the Legislature has enacted legislation to empower the department to fulfill its role in an effective manner and that the department's failure to carry out its responsibilities would place the state's fiscal and accountability system at "risk." The department is charged with significant responsibilities to ensure that the financial integrity of the state and its subdivisions are protected. Citizens, bondholders, and businesses all rely on a state government that is managed in accordance with sound financial principles.

The cornerstone of the state's fiscal oversight and accountability system is the state's financial statements—the Comprehensive Annual Financial Report (CAFR) —and an independent audit of the statements, a Level 1 risk as categorized by PEER. PEER concludes that the department focuses necessary resources to ensure that the CAFR audit is conducted in accordance with generally accepted government auditing standards, in accordance with AICPA audit standards, and completed in a timely manner. Also, PEER notes that the department appropriately focuses necessary resources to ensure that county and education audits are performed according to standards and in a timely manner, a Level 2 risk as categorized by PEER.

Although the department is appropriately conducting its CAFR, county, and education audits, some significant factors affect the department's operations and potentially impact the state's fiscal oversight and accountability system. For example, due to the auditing requirements associated with and resources necessary to conduct the annual CAFR audit, the department does not perform individual audits of agencies not material to the CAFR, some of which are required to be audited annually by state law. The department performs limited internal control and compliance reviews on these agencies as time permits. In addition, low staffing levels and high turnover rates in the department's Financial and Compliance Audit Division have resulted in a decreased experience level of audit staff and reduced institutional knowledge used in forming auditor judgment. Due to staffing shortages, the department has relied to a significant degree on contract certified public accountants to accomplish its audit work. An increase in the statutory limit of the amount of fees that the department could charge for audits would generate additional special fund revenue that could be used to retain existing experienced staff and hire additional auditors, thereby decreasing the department's reliance on contract auditors.

With regard to its responsibilities to make inventories of all fixed assets, PEER concludes that the department accomplishes its statutory responsibilities for state agencies and universities. However, the department is conducting unnecessary fixed asset audits for counties and public school districts, audits which are duplicative of inventory assessments made by auditors during financial audits. The department accomplishes its responsibilities related to verifying that state and local government entities comply with statutory motor vehicle identification requirements. The duplicative local government fixed asset audits and vehicle identification responsibilities have significantly reduced the department's resources with which to perform state agency and university fixed asset audits.

PEER concludes that the department has accomplished its statutory responsibilities for verifying that the public school districts have submitted accurate and valid school district student report information to the Mississippi Department of Education. However, the department has not adequately planned its compliance audits of the Mississippi Student Information System that the public school districts now use to report student data to the Mississippi Department of Education.

The department's Performance Audit Division produces statutorily mandated reports that the State Auditor assigns to it for completion. Further, the division performs assistance work at the request of legislators and provides internal assistance to other operating divisions of the department.

With regard to its investigative function, the department has established an organizational concept, staffing, and case management system to investigate and resolve alleged violations of state fiscal oversight and accountability laws and to recover lost public funds or property. For fiscal years 2002 through 2006, the department collected $5,134,136 from repayment demands and disbursed $3,554,111 to entities for which the State Auditor demanded repayments of misspent public funds.

As required by state law, the department has established generally accepted accounting principles for public offices of the state and its subdivisions and provides assistance and training to personnel of state and local government regarding such. However, the department does not ensure that municipalities have annual audits conducted and submitted to the department for review and filing. In addition, the department does not collect fees for providing training courses.

PEER notes that the Department of Audit also is burdened by statutory requirements that certain reports or documents be filed with the department by local governmental entities. While maintaining these reports may not consume a great deal of staff time, it appears to be unnecessary and does take some time and space that could be allocated to other tasks. Additionally, state law also mandates a few reports that contribute little to the efficient and effective governance and control of state resources. Such reports also consume some of the department's resources that could be deployed on other activities.

Recommendations

1. The Department of Audit should become a third party in all contracts between education entities and outside CPA firms in order to allow the department to monitor the timeliness of work by outside CPA firms.

2. The Legislature should grant the Department of Audit the authority in law to establish late penalties in contracts between state and local entities and outside CPA firms, to be imposed if audit reports are not completed by specified due dates. The Department of Audit should also have the authority to waive late penalties if, in the opinion of the department, circumstances beyond the control of the outside CPA firm prevented the audit report from being completed by the specified due dates.

3. The Department of Audit should be granted in law the authority to prohibit for a reasonable period of time outside CPA firms from soliciting contracts for the performance of audits of state and local entities if an outside CPA firm has demonstrated a pattern of chronic tardiness in delivering audit reports by specified due dates.

4. The Department of Audit should work with the State Personnel Board to develop a unique job classification and salary schedule that is equitable to similar positions in private industry for audit staff in the Financial and Compliance Audit Division.

5. The Legislature should amend MISS. CODE ANN. §7-7-213 (1972) to allow the Department of Audit to charge state and local entities an audit rate equal to actual costs, as is done in conjunction with the federal Single Audit.

6. In the future, when the Legislature finds it necessary to bring forward CODE sections requiring individual agency audits, the Legislature should strike audit requirements for individual agencies or entities. Further, the Legislature should not require audits of specific agencies and entities in the future.

7. The Department of Audit should perform Limited Internal Control and Compliance reviews on agencies not material to CAFR on a three-year cycle.

8. The Department of Audit should not conduct routine fixed asset audits of the counties and public school districts except when the local governing boards request an audit due to inventory control problems. This would allow the department's Property Audit Division to focus on fulfilling its statutory responsibility for the property accounts of state agencies and universities, thereby increasing the number of annual property audits conducted of these entities and reducing the amount of time between audits.

9. The Legislature should amend MISS. CODE ANN. Section 25-1-87 (1972):

   -- to require the Department of Audit to check for compliance with vehicle marking requirements for state agencies and universities as part of fixed asset audits for these entities;

   -- to require the Department of Audit to revise its fixed asset auditing manuals for cities, counties, and public school districts to require these local entities to file a "sworn and attested to" statement of compliance with the vehicle marking requirements for government-owned vehicles with the State Tax Commission. This statement should include an inventory of the county vehicles with the same information as the state-owned vehicle master inventory system of the Department of Audit;

   -- to require the annual financial audits of local government entities to address the entities' compliance with vehicle marking requirements, including documentation of approval for unmarked vehicles.

   If an entity is not in compliance with the vehicle marking laws, the financial auditor should notify the State Tax Commission of this noncompliance so that the commission can act to stop the distribution of certain tax collections, as authorized by MISS. CODE ANN. Section 25-1-87 (1972); and,

   -- to require that documentation of gubernatorial approval for unmarked state agency and university vehicles be sent to the new Fleet Management Division of the Department of Finance and Administration rather than the Department of Audit.

10. In auditing the Mississippi Student Information System (MSIS), the Department of Audit's Average Daily Attendance Audit Division should:

    -- prepare and use a standardized audit plan for annual audits of the public school districts and individual schools. This would help to ensure that the ADA auditors accomplish these critical audits with standard objectives, criteria, documentation, methodology, and practices in order to verify the validity and reliability of the reported information;

    -- include reviewing and sampling, if necessary, of the school districts' annual mandatory fixed asset audit report and supporting documentation; and,

    -- not conduct annual inventory audits of the fixed asset accounts of school districts, including vehicles.

11. The Legislature should amend MISS. CODE ANN. Section 25-1-77 and Section 31-7-13 (1972) to delete the requirement that the State Auditor conduct audits of vehicle purchases and produce reports on agency emergency purchases.

12. The Department of Audit should maintain a record of all referral requests for audits or investigations, the approval or disapproval action of the State Auditor or his Deputy State Auditor, and the documentation notifying the referrer of the decision.

13. The Department of Audit should use the authority provided in MISS. CODE ANN. Section 7-7-218 (1972) and contract with certified public accountants to audit municipalities that fail to have annual audits performed and submitted to the department as required by state law. As provided for in this CODE section, any municipality for which the department must arrange an annual audit should bear the costs of such audit.

14. As provided for in MISS. CODE ANN. Section 19-3-77 (1972), the Department of Audit should establish and charge reasonable fees for providing training programs for personnel of state and local governmental entities. At a minimum, the department should recoup all or a portion of the costs associated with providing professional certification courses mandated by state law for certain county employees.

15. The Legislature should amend the following sections of state law to delete the requirements that entities automatically provide copies of certain reports, agreements, or resolutions to the Department of Audit.

- Section 17-13-11 (4): Governmental units to file interlocal agreements
- Section 21-33-47: Municipalities to file tax levy resolutions
- Section 27-1-37: Copy of report of annual enumeration of all ex-confederate soldiers and widows of deceased confederate soldiers
- Section 27-31-31 (2): Municipalities to file ad valorem tax exemptions for structures within the central business district
- Section 27-31-109: Municipalities and counties to file ad valorem tax exemptions
- Section 27-45-1: Copy of report of county land redemption settlements
- Section 27-51-11: Copy of report for each county road and bridge privilege license
- Section 41-73-71: Annual reports of Mississippi Hospital Equipment and Facilities Authority
- Section 45-3-25: Copy of patrolman's abstract of the court record
- Section 47-5-30 (3): Strategic plan on the operations of the state's correctional system
- Section 49-2-29 (3): Strategic plan on the operations of the Department of Environmental Quality
- Section 51-29-97: Annual sworn statements of financial condition from drainage districts
- Section 57-64-23 (4): Intergovernmental regional economic development agreements to be filed
- Section 63-9-21 (6): Copy of uniform traffic tickets
- Section 65-9-25: Notification of withdrawal of state aid road funds from a county by the State Aid Engineer
- Section 65-18-17: Notification of withdrawal of local system road funds from a county by the State Aid Engineer

- Section 69-21-119 (3): Board of Agricultural Aviation annual financial statements and any proposed license fee adjustments
- Section 77-5-253: Electric power associations' annual financial reports and compliance audits
- Section 77-15-3: Local natural gas districts' annual financial reports

Appendix A: Statutory Responsibilities of the Department of Audit's Divisions and Risk Levels Assigned by PEER

Level 1 (Primary risk): The failure of the Department of Audit to address this type of risk could result in inaccurate reporting of the financial condition of the state in material aspects and could result in injury to citizens of and investors in the state. An example of this type of risk would be failure to conduct an audit of the state's Comprehensive Annual Financial Report (CAFR), because such could negatively impact the state's standing in the financial markets and make borrowing funds more difficult.

Level 2 (Secondary risk): The failure of the Department of Audit to address this type of risk could result in inaccurate reporting of the financial condition of local governing authorities in material aspects and could result in injury to citizens of and investors in these authorities. Failure to address this type of risk might also result in the inaccurate reporting of a component of the financial condition of the state but would not result in injury to citizens of and investors of the state. An example of this type of risk would be failure to conduct audits of local governing authorities and municipalities, because such could result in citizens not receiving basic services and entities having difficulty in borrowing funds.

Level 3 (Tertiary risk): The failure of the Department of Audit to address this type of risk would not result in inaccurate reporting of the financial condition of the state in a material aspect or injury to citizens or and investors in Mississippi. However, it might result in a potential loss of improved effectiveness or efficiency of the state or local governing authorities. An example of this type of risk would be failure to develop uniform accounting or reporting procedures, because such could leave entities to their own devices and possibly result in a lack of disclosure of government operations.

Level 4 (Immaterial risk): The failure of the Department of Audit to address this type of risk would not affect the financial condition, effectiveness, or efficiency of the state or local governing authorities. These items are primarily of an administrative, recordkeeping or technical nature. An example of this type of risk would be failure to accomplish "housekeeping" responsibilities, such as the filing of certain reports or providing assistance to other entities. While fulfillment of such responsibilities is required by law, the failure to do so would not result in financial jeopardy to the state or to a local government.

All statutory references are to the MISSISSIPPI CODE ANNOTATED (1972).

Statutory Provision	Description	Assigned Division	Risk Level
Section 7-7-216	Once during each 4-year term, the Legislature must contract for an opinion and legal compliance audit of the State Auditor's Office.	Administrative Services	1
Section 7-7-209	For all Department employees required to travel, reimburse amounts for subsistence and transportation, as provided by law.	Administrative Services	3
Section 7-7-209	Purchase necessary supplies, stationery, printing, furniture and equipment at the lowest and best price.	Administrative Services	3
Section 7-7-209	Pay monthly from the Department of Audit Fund salaries, travel and other expenses from requisitions and vouchers approved by the director or assistant director.	Administrative Services	3
Section 7-7-213	Establishes costs the State Auditor's Office can charge for some audit services.	Administrative Services	3

Section 7-7-213	Upon failure of governmental units to pay audit costs, notify the State Fiscal Officer.	Administrative Services	3
Section 7-7-213	Collect from officers and employees costs of services performed made necessary by willful fault or negligence of officers or employees.	Administrative Services	3
Section 7-7-214	Establishes audit costs the State Auditor's Office can charge for audits under the Single Audit Act of 1984 of governmental entities that receive reimbursement of audit costs from the federal government.	Administrative Services	3
Section 7-9-21	Pay into the State Treasury daily or weekly all public funds collected.	Administrative Services	3
Section 7-9-21	Report to the State Fiscal Officer all funds paid into the State Treasury.	Administrative Services	3
Section 25-17-9 (2) (c)	Maintain copies of cafeteria plan provider dishonesty, destruction and disappearance bonds.	Administrative Services	3
Section 25-17-9 (2) (d)	Establish guidelines regarding the operation of cafeteria plans by agencies and local governments.	Administrative Services	3
Section 25-17-9 (5)	Maintain documentation verifying compliance of authorized cafeteria plan with Internal Revenue Service requirements.	Administrative Services	3
Section 1-1-11 (1)	Receive from the Secretary of State 20 sets of the Mississippi Code of 1972.	Administrative Services	4
Section 7-7-205	Execute surety bonds for the Director, assistant director and all accountants and auditors in amounts determined by the State Auditor.	Administrative Services	4
Section 7-7-205	The Director's surety bond must be no less than $25,000.	Administrative Services	4
Section 25-1-13	State Auditor must give surety bond to Governor in the amount of $30,000.	Administrative Services	4
Section 25-17-9 (2)	Compile and revise list annually of cafeteria plan providers deemed acceptable to provide benefits and services to agencies and local governments.	Administrative Services	4
Section 25-17-9 (2) (c)	Determine amounts of dishonesty, destruction and disappearance bond to be filed by cafeteria plan providers.	Administrative Services	4

Section 25-17-9 (4)	Receive complaints against cafeteria plan providers from agencies and local governments.	Administrative Services	4
Section 25-17-11 (1)	Administrators must have provided qualification and discrimination testing service in compliance with IRS Code Section 89.	Administrative Services	4
Section 25-17-11 (2)	Compile list of acceptable cafeteria plan administrators.	Administrative Services	4
Section 25-17-11 (2) (c)	Establish guidelines for agencies and local governments regarding compliance with IRS Code Section 89.	Administrative Services	4
Section 25-17-11 (2)	Remove cafeteria plan administrators from authorized list when administrators do not satisfy requirements of State Auditor and IRS.	Administrative Services	4
Section 25-17-11 (4)	Receive complaints against cafeteria plan administrators from agencies and local governments.	Administrative Services	4
Section 25-17-11 (5)	Promulgate rules and regulations necessary to implement the compilation of a list of cafeteria administrators.	Administrative Services	4
Section 25-59-7	State Auditor is member of the State Records Committee.	Administrative Services	4
Section 25-60-1	State Auditor is member of the Local Government Records Committee.	Administrative Services	4
Section 29-3-121	The Office of the State Auditor may order and arrange for and supervise a recount of children enrolled in a school district if requested by a superintendent.	Average Daily Attendance Audit	3
Section 37-37-3	Employ examiners to determine the correctness and accuracy of all reports made to the State Department of Education concerning the number of educable children, student enrollment, attendance and students transported.	Average Daily Attendance Audit	3
Section 37-37-5	Qualifications of average daily attendance examiners.	Average Daily Attendance Audit	3
Section 37-37-7 (2)	State Auditor may establish policies and procedures to ensure the accuracy and reliability of student data used to determine state funding for local school districts.	Average Daily Attendance Audit	3

Section 37-37-9	State Auditor shall prepare a report setting forth the audit results and findings, with copies of the report furnished to the State Department of Education and each school district reviewed.	Average Daily Attendance Audit	3
Section 37-37-9	State Auditor shall complete a comprehensive annual report summarizing results of reviews each year.	Average Daily Attendance Audit	3
Section 37-37-9	Provide the annual report to the State Department of Education and to the education committees of the House of Representatives and Senate.	Average Daily Attendance Audit	3
Section 7-7-67	Sue, collect and pay all money improperly withheld by any fiscal officer or depository.	Executive	1
Section 7-7-211 (g)	Upon failure to pay demanded amounts, institute suit in any state court for recovery of amounts demanded.	Executive	1
Section 7-7-215	The Director shall require such financial reports from every public office and taxing body as he may deem necessary.	Executive	1
Section 7-7-215	The State Auditor's Office has access to all records, documents, books, papers and other evidence related to financial transactions of any governmental entity subject to audit by the State Auditor's Office.	Executive	1
Section 7-7-69	Sue for recovery of misappropriated money.	Executive	2
Section 21-35-31	Approve accountants (non CPAs) contracted by municipalities for annual audits.	Executive	2
Section 113 Constitution	Within 60 days after adjournment of the Legislature, prepare and publish a statement of all money expended at the session itemizing items paid, amounts paid and for what paid. Publish the amounts of all appropriations.	Executive	3
Section 7-7-45 (a)	The State Fiscal Officer shall, within 60 days after the adjournment of the Legislature, prepare and furnish to the State Auditor a full statement of all moneys expended at such session.	Executive	3

Section 7-7-49	Cooperate with and receive cooperation from the State Fiscal Officer, the State Treasurer, the Legislative Budget Office, the State Tax Commission and all other state departments in the maintenance of pertinent state government financial information.	Executive	3
Section 7-7-75	The State Auditor shall not be liable for costs and may appeal without bond.	Executive	3
Section 7-7-202	The Department of Audit office must be kept at the seat of government.	Executive	3
Section 7-7-202	The Department of Audit must open Monday through Friday for at least 8 hours each day.	Executive	3
Section 7-7-202	The State Auditor may establish satellite offices at other locations.	Executive	3
Section 7-7-203	The State Auditor shall appoint a Director for the Department of Audit.	Executive	3
Section 7-7-203	The Director must be a certified public accountant and will be responsible for the Department's management and the execution of policies.	Executive	3
Section 7-7-203	The Director shall select and employ all assistants after they have qualified under a merit system established by the State Auditor and Director.	Executive	3
Section 7-7-215	At the end of each fiscal year, the State Auditor and Director must prepare and publish a comparative financial statistical report covering all public offices over which the State Auditor's Office has accounting and audit supervision.	Executive	3
Section 7-7-215	Upon direction of the Governor, make special reports, audits or investigative, that he or she may desire.	Executive	3
Section 7-7-218 (1)	When state or political subdivision officers or employees fail to make reports to the State Auditor's Office, make or cause reports to be made.	Executive	3
Section 7-7-218 (2)	Proceed to cause any substantial noncompliance audit finding that has existed for 3 consecutive years to be made in compliance and publish the findings and actions.	Executive	3

Section 7-9-12	Levy civil penalties for violations of establishment of bank accounts.	Executive	3
Section 19-2-11	If noncompliance is not resolved within 30 days, said certificate of noncompliance shall be issued.	Executive	3
Section 19-2-11	The State Auditor shall given written notice to the Tax Commission and the Attorney General canceling certificate of noncompliance when noncompliance issues have been resolved.	Executive	3
Section 19-2-11	If upon audit, examination or investigation, the State Auditor determines that an individual member of a county board of supervisors is not in substantial compliance with County Government Reorganization Act that requires the county to operate on a countywide system of road administration, then the State Auditor shall give, by certified US mail, return receipt requested, written notification to the supervisor of such non compliance.	Executive	3
Section 19-2-11	If within 30 days after receipt of the notice, such supervisor, in the opinion of the State Auditor, remains in noncompliance, the State Auditor may institute civil proceedings in chancery court of the county in which the supervisor serves.	Executive	3
Section 19-11-17	Authorized to sue board of supervisors for recovery of funds allowed for claims in excess of budgeted expenditures.	Executive	3
Section 19-13-27	Shall proceed against the clerk of the board of supervisors for collection of penalty of $500 payable to the county, for failure to keep a proper docket of claims.	Executive	3
Section 21-35-17	File suit for recovery of amounts paid by municipal officers in excess of budget appropriations, except when made pursuant to court order or for an emergency.	Executive	3
Section 37-37-21	Report to the Attorney General, when school district attendance reports appear to be false or erroneous.	Executive	3
Section 51-29-97	Receive annual sworn statements of financial condition from drainage districts.	Executive	3
Section 51-29-97	Upon recommendation of Audit Department Director, appoint on a temporary or permanent status auditors to perform audits on active drainage districts.	Executive	3

Section 77-15-3	Receive and review annual financial reports of all local natural gas districts.	Executive	3
Section 5-3-65	Assist the PEER Committee in whatever manner it determines is helpful.	Executive	4
Section 7-7-45 (a)	The State Auditor is to publish all appropriations, as prescribed by Section 113 of the Constitution.	Executive	4
Section 7-7-45 (a)	Sufficient copies of the report shall be made available.	Executive	4
Section 7-7-75	All lawsuits by the State Auditor for recovery of public funds shall be in his name for the use of the governmental entity interested.	Executive	4
Section 7-7-77	Failure to submit such reports will result in suspension from office by the Governor.	Executive	4
Section 7-7-201	The Department of Audit is created under the supervision of the State Auditor.	Executive	4
Section 7-7-202	The State Auditor is authorized to prepare and use an official seal.	Executive	4
Section 7-7-207	Compensate the Department of Audit Director at an amount set by the State Auditor, not to exceed the State Auditor's salary.	Executive	4
Section 19-25-15	Shall impound sheriff's office vehicles not marked and not exempt by law from marking after 15 days' notice to sheriff and the board of supervisors for compliance.	Executive	4
Section 23-15-193	There shall be an elected Auditor of Public Accounts for a term of four years and until a successor is elected and qualified.	Executive	4
Section 25-53-151 (2)	State Auditor is member of the Electronic Government Oversight Committee.	Executive	4
Section 25-65-9 (1)	An agency, university or community/junior college internal audit director may be terminated by the appointing authority after a seven-day notification period to the State Auditor.	Executive	4

Section 27-105-5	Qualification as public funds depository; authority of State Treasurer; definitions. State Auditor shall have access to confidential information contained in a report of a qualified public funds depository.	Executive	4
Section 37-152-1	The State Auditor, or his designee, is a member of the Commission on Restructuring MAEP.	Executive	4
Section 47-5-2 (1)	The State Auditor is a member of the Corrections Investigative Taskforce.	Executive	4
Section 47-5-30 (3)	Receive from the Commissioner of Corrections a strategic plan on the operation of the state's correctional system.	Executive	4
Section 77-5-253	Receive and review annual financial and compliance audits of all electric power associations.	Executive	4
Section 83-43-21	May call for a written report at any time, concerning financial affairs and status of a dental service corporation.	Executive	4
Section 83-43-31	Regarding nonprofit dental service corporations, petition the court for a mandamus or injunction to prevent violation of this chapter's provisions or to enforce its compliance.	Executive	4
Section 7-7-211 (a)	Identify and define generally accepted accounting principles for all public offices of the state and its subdivisions.	Financial & Compliance Audit	1
Section 7-7-211 (d)	Every year, relative to the comprehensive annual financial report of the state, postaudit, and when necessary, preaudit and investigate financial matters of departments, institutions, boards, commissions and other agencies of state government.	Financial & Compliance Audit	1

Section 7-7-211 (k)	If funds are made available by the Legislature, contract with qualified public accounting firms to perform selected audits regarding the following entities: departments, institutions, boards, commissions or other agencies of state government; county governments, public school districts, junior college districts, any other local offices or agencies which share revenues derived from taxes or fees imposed by the Legislature or receive grants from revenues collected by governmental divisions of the state; levee boards, agencies created by the Legislature or by Executive Order; profit or nonprofit business entities administering programs financed by funds flowing through the State Treasury or through any of the state agencies or subdivisions; and all other public bodies supported by funds derived in part or wholly from public funds, except municipalities.	Financial & Compliance Audit	1
Section 7-7-211 (k)	Provide audit programs and final report formats to public accounting firms conducting such contract audits.	Financial & Compliance Audit	1
Section 7-7-215	Conduct all audits in accordance with generally accepted auditing standards.	Financial & Compliance Audit	1
Section 27-104-4 (2)	Audit the CAFR in accordance with generally accepted auditing standards and publish within 6 months after the June 30 close of each fiscal year.	Financial & Compliance Audit	1
Section 27-104-4 (3)	Publish, within 12 months of the June 30 close of each fiscal year, statements on internal control systems and on compliance with federal grant requirements and with applicable state and federal laws, that conform to Single Audit Act of 1984.	Financial & Compliance Audit	1
Section 33-15-205 (a)	Final audit of federal funds requested by the Governor for the state as the result of a declared emergency or disaster.	Financial & Compliance Audit	1

Section 7-7-211 (e) and (f)	Postaudit, and when necessary, preaudit and investigate financial matters of the following entities: county governments; public school districts; junior college districts; levee boards; agencies created by the Legislature or by Executive Order; profit or nonprofit business entities administering programs financed by funds flowing through the State Treasury or through any state agency or subdivision; any other local agencies sharing revenues from taxes or fees imposed by the Legislature or receiving grants from revenues collected by state governmental divisions; and all other public bodies supported by funds derived in part or wholly from public funds except municipalities.	Financial & Compliance Audit	2
Section 7-7-211 (j)	In the discretion of the State Auditor, make examinations or audits of public hospitals or public school districts from audit reports produced by certified public accountants.	Financial & Compliance Audit	2
Section 7-7-211 (j)	Provide audit programs and final report formats to certified public accountants conducting audits of public hospitals and public school districts.	Financial & Compliance Audit	2
Section 7-7-211 (o)	Annually postaudit the Chickasawhay Natural Gas District.	Financial & Compliance Audit	2
Section 19-3-109	Shall audit from time to time County Cooperative Service Districts.	Financial & Compliance Audit	2
Section 19-5-99 (1)	Shall audit economic development districts the same as other public funds are audited.	Financial & Compliance Audit	2
Section 19-29-18	Authority to subject each railroad authority to examination by State Auditor's Office.	Financial & Compliance Audit	2
Section 27-107-321 (2) (g)	State Auditor, upon request of the Department of Finance and Administration, shall audit the receipts and expenditures of a county, municipality or public school district if emergency aid loan repayment appears to be in arrears.	Financial & Compliance Audit	2
Section 27-107-321 (2) (g)	If Auditor finds the county, municipality or public school district is in arrears, the Auditor shall immediately notify the executive director of the Department of Finance and Administration.	Financial & Compliance Audit	2
Section 37-9-18 (2)	In the discretion of the State Auditor, audit school district financial records.	Financial & Compliance Audit	2

Section 37-9-18 (2)	Upon school district resolution requesting an annual audit, perform audits for such school districts.	Financial & Compliance Audit	2
Section 37-9-18 (2)	Prescribe the manner in which school districts contract for audit services with certified public accountants.	Financial & Compliance Audit	2
Section 37-9-18 (3) (b)	When conducting audit of school district, State Auditor shall test to insure correct and appropriate coding at the function level.	Financial & Compliance Audit	2
Section 37-9-18 (4)	Review school district audits performed by certified public accountants for compliance with state laws prior to school district's final payment of audit services.	Financial & Compliance Audit	2
Section 37-61-9 (4)	Ensure school districts properly classify expenditures related to statutory limitation on administrative costs.	Financial & Compliance Audit	2
Section 37-61-29	The Department of Audit is authorized to audit and investigate financial affairs of county school districts.	Financial & Compliance Audit	2
Section 41-3-16 (2) (g)	For local water organizations whose loan repayments appear to be in arrears, and upon request of Local Governments and Rural Water Systems Improvement Board, audit receipts and disbursements of water organizations.	Financial & Compliance Audit	2
Section 41-27-29 (e)	County mosquito control commissions and joint mosquito control commissions are subject to audit by the State Auditor.	Financial & Compliance Audit	2
Section 55-19-15	The Bienville Recreational District is subject to audit by the State Auditor.	Financial & Compliance Audit	2
Section 57-1-303 (5)	Upon determination that a county or municipality is in arrears in repayments to the Local Governments Capital Improvements Revolving Loan Fund, immediately notify the Department of Finance and Administration Executive Director.	Financial & Compliance Audit	2
Section 57-32-13	The funds of the Southeast Mississippi Industrial Council are public funds and shall be audited by the State Auditor as other public funds are audited.	Financial & Compliance Audit	2
Section 57-44-7 (4)	Upon the request of the Mississippi Development Authority, audit counties and municipalities whose Local Governments Freight Rail Service Project Revolving Loan Fund repayments appear to be in arrears.	Financial & Compliance Audit	2

Section 57-44-7 (4)	Upon determination that a county or municipality is in arrears in repayments to the Local Governments Freight Rail Service Project Revolving Loan Fund, immediately notify the Department of Finance and Administration Executive Director.	Financial & Compliance Audit	2
Section 5-11-3 (3)	Prepare complete financial audits of any agency facility or abolished agency.	Financial & Compliance Audit	3
Section 5-11-3 (3)	Audit shall be completed not less than 90 days after the effective date of the act requiring the abolishment.	Financial & Compliance Audit	3
Section 7-7-33	Consult with the State Fiscal Officer regarding disbursement warrant preaudit standards and procedures.	Financial & Compliance Audit	3
Section 7-7-59	In all audits of agencies, institutions, boards and commissions, test compliance with requirements of petty cash funds.	Financial & Compliance Audit	3
Section 7-7-59	Report all violations to Governor and Legislature.	Financial & Compliance Audit	3
Section 7-7-211 (b)	Prescribe and, when necessary, revise systems of accounting, budgeting and financial reporting for all public offices of regional and local subdivisions of the state.	Financial & Compliance Audit	3
Section 7-7-211 (b)	Assist public offices of regional and local subdivisions of the state in the installation of accounting, budgeting and financial reporting systems.	Financial & Compliance Audit	3
Section 7-7-211 (b)	Report to the Legislature the status of implementation of systems by public offices of regional and local subdivisions of the state and recommend to the Legislature desirable improvements.	Financial & Compliance Audit	3
Section 7-7-211 (m)	Upon written request by the Governor or member of State Legislature, audit any state or federal fund received by any nonprofit corporation.	Financial & Compliance Audit	3
Section 7-7-215	Prepare reports for each audit and investigation conducted.	Financial & Compliance Audit	3
Section 7-7-215	File one copy of each audit and investigative report in the State Auditor’s Office.	Financial & Compliance Audit	3
Section 7-7-215	Maintain confidentiality of work papers until findings and exceptions have been reported.	Financial & Compliance Audit	3

Section 7-7-225	When conducting state agency and institutions of higher learning audits, test compliance that contracts for legal services have received approval of Attorney General.	Financial & Compliance Audit	3
Section 7-9-12	When auditing state agencies, test compliance that established bank accounts are authorized by the State Treasurer.	Financial & Compliance Audit	3
Section 9-13-105	Identify accounting procedures to be used by the Board of Certified Court Reporters in accounting to the Supreme Court in all fiscal matters.	Financial & Compliance Audit	3
Section 17-15-9	Human resource agencies are subject to audit by the State Auditor.	Financial & Compliance Audit	3
Section 19-2-3	Provide, to a county, estimates of the cost of implementing and complying with the County Government Reorganization Act of 1988 upon request from the board of supervisors.	Financial & Compliance Audit	3
Section 19-2-11	Examine annually records of each county to determine compliance with County Government Reorganization Act.	Financial & Compliance Audit	3
Section 19-2-11	For counties not in substantial compliance, the State Auditor shall file a certified written notice with the clerk of the board of supervisors notifying the board of intention to issue a certificate of noncompliance to the State Tax Commission and to the Attorney General 30 days after filing notice.	Financial & Compliance Audit	3
Section 25-1-77 (3)	State Auditor shall make on-site visits and conduct audits to ensure compliance with this section.	Financial & Compliance Audit	3
Section 25-11-119 (2)	Audit annually the Public Employees' Retirement System.	Financial & Compliance Audit	3
Section 25-65-13 (d)	University, community/junior college and agency internal audit director shall make a copy of the approved long-term and annual audit plan, upon request, available to the State Auditor.	Financial & Compliance Audit	3
Section 25-65-17 (1)	Universities, community/junior colleges and state agencies without a governing board or commission shall have the quarterly internal audit reports provided to the Governor and the State Auditor.	Financial & Compliance Audit	3

Section 25-65-19 (2)	Universities, community/junior colleges and state agencies shall submit final internal audit reports to the head of the university, community/junior college or state agency and the State Auditor.	Financial & Compliance Audit	3
Section 25-65-21 (2)	If a follow-up internal audit report is issued, it shall be provided upon request to any member of the Legislature, the State Auditor, the Attorney General, the Governor or other external auditor.	Financial & Compliance Audit	3
Section 27-45-5	Duty to audit land redemption account of each chancery clerk as other funds are audited.	Financial & Compliance Audit	3
Section 27-45-5	Include in audit a special report to the board of supervisors detailing the amount of land redemption funds collected, disposition of such funds, balance of funds on hand, and attest to the correctness thereof.	Financial & Compliance Audit	3
Section 27-51-31	Charge the account of any tax collector for the amount of any taxes lost by reason of failure to comply with provisions of road and bridge privilege law and enforce payment to the proper authorities of any such funds due and unpaid.	Financial & Compliance Audit	3
Section 27-104-3 (c)	Consult with the Department of Finance and Administration in preparation and revision of a comprehensive state accounting manual.	Financial & Compliance Audit	3
Section 27-104-4 (1)	Consult with State Fiscal Officer on rules and regulations for state agencies to prepare annual financial statements.	Financial & Compliance Audit	3
Section 27-104-17 (2)	Receive from state agencies written justification for transferring budget amounts within major expenditure objects.	Financial & Compliance Audit	3
Section 27-104-105	Test for Department of Finance and Administration's compliance with statutory requirements to verify legal services authorization before issuing warrants.	Financial & Compliance Audit	3
Section 27-105-371	Notify county officials of any unidentified funds found during audit. Settle any unidentified funds into the county general fund.	Financial & Compliance Audit	3
Section 29-9-13	Report to be included in the audit report of the agency.	Financial & Compliance Audit	3

Section 31-7-9 (1) (a)	Upon the adoption of any purchasing regulations, or an amendment, addition or elimination therein, copies of same shall be furnished to the State Auditor by the Department of Finance and Administration's Office of Purchasing and Travel.	Financial & Compliance Audit	3
Section 31-7-115	Audit or cause to be audited each year the books, records, supporting documents and other data of all county purchase clerks and inventory control clerks.	Financial & Compliance Audit	3
Section 31-7-115	Include in annual audits a review of each county's compliance with lowest and best bid procedures, emergency purchase procedures, and exceptions from bidding requirements.	Financial & Compliance Audit	3
Section 31-7-115	Include in annual audits a schedule of purchases not made from lowest bidder.	Financial & Compliance Audit	3
Section 31-7-115	Include in annual audits a schedule of emergency purchases.	Financial & Compliance Audit	3
Section 31-7-115	Include in annual audits a schedule of purchases made noncompetitively from a sole source.	Financial & Compliance Audit	3
Section 31-11-3 (9) (e)	State construction contracts subject to oversight and review by the State Auditor.	Financial & Compliance Audit	3
Section 33-7-413	National Guard appropriated funds are subject to audit by the State Auditor.	Financial & Compliance Audit	3
Section 37-9-18 (2)	Upon determination of a school district audit report disclaimer opinion or upon determination of serious financial condition in a school district, notify the State Board of Education.	Financial & Compliance Audit	3
Section 37-9-18 (2) (e)	Advise the State Board of Education on the necessity of continuation of financial advisor services for school districts that experienced financial difficulty.	Financial & Compliance Audit	3
Section 37-9-18 (3) (a)	Auditor shall test to insure compliance with the requirements related to classroom supply funds.	Financial & Compliance Audit	3
Section 37-9-18 (3) (a)	Audit must include a report of all classroom supply funds carried over from previous year.	Financial & Compliance Audit	3

Section 37-9-18 (3) (a)	Based on audit report, State Auditor shall compile a report on the compliance or noncompliance by all school districts related to classroom supply funds requirements.	Financial & Compliance Audit	3
Section 37-9-18 (3) (a)	Report must be submitted to the Chairmen of the Education and Appropriations Committees of the House of Representatives and Senate.	Financial & Compliance Audit	3
Section 37-9-18 (3) (b)	Audit must include a report showing correct and appropriate functional level expenditure codes in expenditures by the school district.	Financial & Compliance Audit	3
Section 37-9-18 (3) (b)	Compliance standards for this audit provision shall be established by the State Auditor.	Financial & Compliance Audit	3
Section 37-9-18 (3) (b)	Based upon the audit report, State Auditor shall compile a report on the compliance or noncompliance by all public school districts with correct and appropriate coding at the function level.	Financial & Compliance Audit	3
Section 37-9-18 (3) (b)	Report must be submitted to the Chairmen of the Education and Appropriations Committees of the House of Representatives and Senate.	Financial & Compliance Audit	3
Section 37-17-6 (14) (b)	Apply any recovered funds collected related to the state of emergency from school officials' surety bonds to repay any loans made from the School District Emergency Assistance Fund.	Financial & Compliance Audit	3
Section 37-33-105	Fees or proceeds from community rehabilitation programs provided by the Department of Rehabilitation Services for retaining and developing handicapped persons are subject to audit by the State Auditor.	Financial & Compliance Audit	3
Section 37-37-1	At the request of the Department of Education, State Auditor shall provide advice for implementation of uniform accounting systems and other related financial records.	Financial & Compliance Audit	*3*
Section 37-101-15 (d)	Approve uniform system of accounting for institutions of higher learning.	Financial & Compliance Audit	3
Section 37-141-21 (3)	Audit annually all funds received by the University Research Center.	Financial & Compliance Audit	3
Section 37-141-21 (3)	Report detailed audit of University Research Center to the Legislature.	Financial & Compliance Audit	3

Section 37-151-7 (1) (g)	The State Auditor shall annually verify the state Board of Education's estimated calculations for the MAEP that are submitted each year to the Legislative Budget Office on August 1 and the final calculation that is submitted on January 2.	Financial & Compliance Audit	3
Section 37-155-117 (3)	The prepaid affordable college tuition program funds shall be subject to annual audits by the State Auditor or his designee.	Financial & Compliance Audit	3
Section 37-155-9 (cc)	The Mississippi Prepaid Affordable College Tuition Program is subject to annual audit by the State Auditor.	Financial & Compliance Audit	3
Section 39-11-9 (2)	The Mississippi Arts Commission is subject to audit by the State Auditor.	Financial & Compliance Audit	3
Section 41-3-16 (2) (g)	Notify Chairman of Local Governments and Rural Water Systems Improvement Board about any loan repayments determined to be in arrears.	Financial & Compliance Audit	3
Section 41-4-21	Approve a uniform system of accounting for the Department of Mental Health.	Financial & Compliance Audit	3
Section 41-19-33 (1) (u)	The State Department of Audit may audit purchases and contracts of regional mental health commissions for compliance with public purchasing laws.	Financial & Compliance Audit	3
Section 41-73-71	Receive annual reports and reports on external examinations from the Mississippi Hospital Equipment and Facilities Authority.	Financial & Compliance Audit	3
Section 43-33-747 (1)	At least annually audit the books and accounts of the Mississippi Home Corporation.	Financial & Compliance Audit	3
Section 43-33-747 (1)	File copies of Mississippi Home Corporation audit reports with the State Treasurer.	Financial & Compliance Audit	3
Section 43-33-747 (3)	Approve accounting systems prescribed by the Mississippi Home Corporation.	Financial & Compliance Audit	3
Section 43-33-747 (4)	Receive annual reports and any external examinations from the Mississippi Home Corporation.	Financial & Compliance Audit	3
Section 43-43-7	Department of Human Services Title XX federal funds used for purchases of service contracts are subject to audit by the State Auditor.	Financial & Compliance Audit	3

Section 47-5-78	Audit annually the State Treasury Lambert State Forest Revolving Fund.	Financial & Compliance Audit	3
Section 47-5-158 (8)	Conduct annual comprehensive audits of the Inmate Welfare Fund.	Financial & Compliance Audit	3
Section 47-5-319	Include in annual audits of the Department of Corrections a detailed statement of all materials, machinery, other procured property and other described information.	Financial & Compliance Audit	3
Section 47-5-559	In conjunction with the prison industries nonprofit corporation auditors, conduct annual financial audits of the prison industries nonprofit corporation.	Financial & Compliance Audit	3
Section 47-5-1009 (2)	Audit annually the Department of Corrections records.	Financial & Compliance Audit	3
Section 49-5-83	Audit the Wildlife Heritage Fund annually.	Financial & Compliance Audit	3
Section 49-15-109	From time to time examine the books and accounts of the Gulf States Marine Fisheries Commission.	Financial & Compliance Audit	3
Section 49-15-109	Report results of the Gulf States Marine Fisheries Commission audit to the Governor.	Financial & Compliance Audit	3
Section 49-17-87 (3)	Upon the request of the Commission on Environmental Quality, audit the receipts and expenditures of each political subdivision making monthly payments to the Department of Environmental Quality.	Financial & Compliance Audit	3
Section 51-11-5 (6)	Audit annually the books and records of the Pearl River Basin Development District.	Financial & Compliance Audit	3
Section 51-11-5 (6)	Report to the Governor and the Legislature results of the Pearl River Basin Development District annual audit.	Financial & Compliance Audit	3
Section 51-11-31	Certify the annual itemized report by the Pearl River Basin Development District to counties on its income and expenditures.	Financial & Compliance Audit	3
Section 51-29-97	May annually audit the books, financial reports and expenditures of drainage districts.	Financial & Compliance Audit	3
Section 55-3-21	Audit annually the Kurtz State Forest Revolving Fund.	Financial & Compliance Audit	3

Section 57-1-303 (5)	Upon the request of the Mississippi Development Authority, audit counties or municipalities whose Local Governments Capital Improvement Revolving Loan Fund repayments appear to be in arrears.	Financial & Compliance Audit	3
Section 57-10-29	Audit the Mississippi Economic Development Corporation at least once per year.	Financial & Compliance Audit	3
Section 57-15-5 (2)	Audit annually expenditures of the Mississippi Commission on Marine Resources.	Financial & Compliance Audit	3
Section 57-15-5 (2)	Make a complete and detailed audit report of the Mississippi Commission on Marine Resources to the Legislature.	Financial & Compliance Audit	3
Section 59-5-67	Audit annually the books and accounts of all state port authorities.	Financial & Compliance Audit	3
Section 59-5-67	Report to the Governor, the Department of Finance and Administration, the Legislative Budget Office and the Mississippi Development Authority audits of all state port authorities.	Financial & Compliance Audit	3
Section 63-17-71	Audit annually the receipts and disbursements of the Motor Vehicle Commission.	Financial & Compliance Audit	3
Section 65-1-85 (11) (e)	Mississippi Department of Transportation contracts shall be subject to oversight and review by the State Auditor.	Financial & Compliance Audit	3
Section 65-1-85 (11) (e)	The State Auditor shall file a report with the Legislature on or before January 1 of each year detailing his findings with regard to any contract let or project performed in violation of requirements.	Financial & Compliance Audit	3
Section 65-1-85 (11) (e)	Actual and necessary expenses incurred by the State Auditor in complying with the auditor's report with regard to any contract let or project performance violations shall be paid for and reimbursed by the Mississippi Department of Transportation out of funds made available for the contracts let and projects performed.	Financial & Compliance Audit	3
Section 65-1-113	Audit the books and accounts of the Department of Transportation at the end of each fiscal year.	Financial & Compliance Audit	3

Section 65-1-113	Copy of the State Auditor's MDOT audit shall be filed with the Governor, the Legislative Budget Office, the Department of Finance and Administration, and the Mississippi Transportation Commission.	Financial & Compliance Audit	3
Section 65-1-113	The audit should be so segregated that it shall show in detail the expenditures of the Department of Transportation.	Financial & Compliance Audit	3
Section 65-1-149	Audit the books and accounts of the Transportation Commission at the end of each fiscal year.	Financial & Compliance Audit	3
Section 65-1-149	Copy of the audit shall be filed with the Governor, the State Auditor, the Legislative Budget Office, the Department of Finance and Administration, and the Mississippi Transportation Commission.	Financial & Compliance Audit	3
Section 65-1-149	The audit should be so segregated that it shall show in detail the expenditures of the Transportation Commission.	Financial & Compliance Audit	3
Section 69-7-259 (e)	Authority to inspect and audit records of the Mississippi Egg Marketing Board.	Financial & Compliance Audit	3
Section 69-21-119 (3)	Authority to audit funds collected by the State Board of Agricultural Aviation for aerial application license for aircraft and pilots.	Financial & Compliance Audit	3
Section 69-21-119 (3)	State Board of Agricultural Aviation to furnish a copy of its financial statements and any proposed license fee adjustments no later than 60 days after the end of each fiscal year.	Financial & Compliance Audit	3
Section 69-27-9 (2)	Audit annually the State Soil and Water Conservation Commission.	Financial & Compliance Audit	3
Section 73-4-15	All records of the Mississippi Auctioneer Commission's Mississippi Auctioneer Licensure Fund are available for inspection by the State Auditor.	Financial & Compliance Audit	3
Section 73-5-5 (2)	Audit the financial affairs of the State Board of Barber Examiners at least once a year.	Financial & Compliance Audit	3
Section 73-5-5 (2)	Audit the financial affairs of the State Board of Barber Examiners upon the direction of the Governor.	Financial & Compliance Audit	3
Section 73-7-5 (2)	At least once per year audit the financial affairs of the Board of Cosmetology.	Financial & Compliance Audit	3

Section 73-7-5 (2)	Upon request of the Governor, audit the financial affairs of the Board of Cosmetology.	Financial & Compliance Audit	3
Section 73-10-21 (6) (c)	All funds collected related to the Mississippi Dietetics Practice Act are subject to audit by the State Auditor.	Financial & Compliance Audit	3
Section 73-13-17 (1)	At least once per year, audit the financial affairs of the Board of Licensure for Professional Engineers and Land Surveyors.	Financial & Compliance Audit	3
Section 73-23-45	Audit annually the financial records of the State Board of Physical Therapy.	Financial & Compliance Audit	3
Section 73-24-15 (1)	The State Board of Health funds related to occupational therapy are subject to audit by the State Auditor.	Financial & Compliance Audit	3
Section 73-31-9 (5)	At least once per year, audit the financial affairs of the Mississippi Board of Psychology.	Financial & Compliance Audit	3
Section 73-38-15 (2)	Funds collected for the Mississippi Council of Advisors in Speech Pathology and Audiology by the Department of Health are subject to audit by the State Auditor.	Financial & Compliance Audit	3
Section 73-67-11	Audit the financial records of the State Board of Massage Therapy annually.	Financial & Compliance Audit	3
Section 77-1-6 (1)	Audit annually the Public Service Commission Regulation Fund.	Financial & Compliance Audit	3
Section 77-2-19 (1)	Audit annually the Public Utilities Staff Regulation Fund.	Financial & Compliance Audit	3
Section 77-9-493	Books and accounts of the Mississippi Transportation Commission shall be audited at the end of each fiscal year, and at any other time deemed necessary, by the Auditor.	Financial & Compliance Audit	3
Section 77-9-493	A copy of such audit shall be furnished to the Governor and the Mississippi Transportation Commission.	Financial & Compliance Audit	3
Section 77-9-493	The State Auditor may prescribe such further accounting procedures as he deems necessary for the withdrawal of funds by the Transportation Commission to regulate and supervise railroad companies.	Financial & Compliance Audit	3
Section 77-11-201	The books and accounts of the Mississippi Public Service Commission shall be audited at the end of each fiscal year, and at any other time deemed necessary, by the State Auditor.	Financial & Compliance Audit	3

Section 77-11-201	A copy of the Mississippi Public Service Commission audit shall be furnished to the Governor and the Commission.	Financial & Compliance Audit	3
Section 77-11-201	The State Auditor may prescribe such further accounting procedures as he deems necessary for the withdrawal of funds by the Mississippi Public Service Commission from special funds.	Financial & Compliance Audit	3
Section 81-1-71	Audit annually the receipts and expenditures of the Department of Banking and Consumer Finance.	Financial & Compliance Audit	3
Section 81-1-71	File copies of the Department of Banking and Consumer Finance audit report with the Commissioner and the Governor.	Financial & Compliance Audit	3
Section 7-7-41	The State Fiscal Office's preaudit rules and regulations will not in any way suspend the Department of Audit's regular audit.	Financial & Compliance Audit	4
Section 7-7-213	Deliver notices to newspapers in counties stating audits are filed in chancery clerk's office.	Financial & Compliance Audit	4
Section 7-7-215	File original copies with the offices audited or investigated.	Financial & Compliance Audit	4
Section 7-7-215	Preserve one copy of each report for the Governor and/or the Legislature.	Financial & Compliance Audit	4
Section 7-7-215	File and retain all audit and investigation reports and work papers pursuant to agreement with the Department of Archives and History.	Financial & Compliance Audit	4
Section 7-7-221 (1)	Provide form to chancery clerks for publication of synopsis of annual county audits.	Financial & Compliance Audit	4
Section 7-7-221 (4)	Receive copies of published county audit report synopsis from chancery clerks.	Financial & Compliance Audit	4
Section 7-7-221 (4)	State Auditor is authorized to prepare a chancery clerk's synopsis report when it does not substantially satisfy legal requirements.	Financial & Compliance Audit	4
Section 7-9-12	Annually report all violations to the Governor and Legislature.	Financial & Compliance Audit	4

Section 25-65-25 (2)	The internal audit director of universities, community/junior colleges and state agencies shall cooperate with the State Auditor or other external auditor in the exchange of technical assistance and access to current information concerning audit techniques, policies and procedures.	Financial & Compliance Audit	4
Section 25-65-31	Annual report of university, community/junior college and agency internal audit directors shall be provided upon request to the State Auditor.	Financial & Compliance Audit	4
Section 27-1-37	Receive copy of report of annual enumeration of all ex-confederate soldiers and widows of deceased confederate soldiers from chancery clerk and file.	Financial & Compliance Audit	4
Section 27-3-73 (2)	Examine only tax returns, any type, necessary for auditing the State Tax Commission subject to same prohibitions against disclosures which apply to Tax Commission.	Financial & Compliance Audit	4
Section 27-7-83 (4)	Examine only income tax returns necessary for auditing the State Tax Commission subject to same prohibitions against disclosures which apply to Tax Commission.	Financial & Compliance Audit	4
Section 27-13-57 (2)	Examine only corporation franchise tax returns necessary for auditing the State Tax Commission subject to same prohibitions against disclosures which apply to Tax Commission.	Financial & Compliance Audit	4
Section 27-31-31 (2)	Governing authorities of municipalities shall file a copy of ad valorem tax exemptions for structures within its central business district with the State Auditor.	Financial & Compliance Audit	4
Section 27-31-109	Governing authorities of municipalities and counties shall file a copy of ad valorem tax exemptions with the State Auditor.	Financial & Compliance Audit	4
Section 27-39-319	The clerk of the board of supervisors shall certify the county tax levy, as approved by the county board of supervisors, to the State Auditor.	Financial & Compliance Audit	4
Section 27-39-329 (2) b)	The State Tax Commission, prior to October 1 of each year, shall send a copy of its notification to each county of their compliance with the requirements related to the use of the 1 mill tax levy to the State Auditor.	Financial & Compliance Audit	4
Section 27-45-1	Chancery clerk shall file a copy of a complete report of the land redemption settlements with the State Auditor.	Financial & Compliance Audit	4

Section 27-51-11	Receive from the state administrator of the road and bridge privilege tax law reports made for each county for road and bridge privilege license and preserve said report for use when auditing the tax collector.	Financial & Compliance Audit	4
Section 27-65-81 (3)	Examine only sales tax returns necessary for auditing the State Tax Commission. Disclosure prohibitions that apply to the State Tax Commission apply to State Auditor's Office.	Financial & Compliance Audit	4
Section 27-77-15 (h)	Information of State Tax Commission obtained during audit may not be disclosed by employees and former employees of the State Auditor, same as State Tax Commission employees.	Financial & Compliance Audit	4
Section 31-29-25 (2)	Perform financial and legal compliance audit of Institute for Technology Development in any year ITD receives state funds.	Financial & Compliance Audit	4
Section 31-29-25 (2)	Make necessary audit recommendations concerning ITD's financial and management control practices.	Financial & Compliance Audit	4
Section 31-29-25 (2)	Deliver ITD audit report to Legislative Budget Committee.	Financial & Compliance Audit	4
Section 37-9-18 (2)	Give reasonable notice to school districts regarding times audits will be conducted.	Financial & Compliance Audit	4
Section 37-151-10 (1) (c)	Any public funds received by the Center for Education Analysis, an advisory group attached to the Public Education Forum of Mississippi, shall be audited by the Department of Audit.	Financial & Compliance Audit	4
Section 45-3-25	The Commissioner of Public Safety shall transmit 1 copy of a patrolman's abstract of the court record to the State Auditor.	Financial & Compliance Audit	4
Section 49-2-29 (3)	Receive copy of the Department of Environmental Quality strategic plan for operations.	Financial & Compliance Audit	4
Section 63-9-21 (6)	Receive from the clerk of appropriate court a copy of uniform traffic tickets (should be within 45 days after judgment is rendered) and retain for at least 2 years.	Financial & Compliance Audit	4
Section 65-9-25	State Auditor to be notified by State Aid Engineer of withdrawal of state aid road funds from a county.	Financial & Compliance Audit	4
Section 65-18-17	State Auditor to be notified by State Aid Engineer of withdrawal of local system road funds from a county.	Financial & Compliance Audit	4

Section 75-76-87 (3)	Examine only state tax returns necessary for auditing the State Tax Commission and the Mississippi Gaming Commission.	Financial & Compliance Audit	4
Section 7-7-71	Has full power and authority to examine and investigate the books, records, papers, accounts and vouchers of any state, county, municipal or other officer.	Investigative	1
Section 7-7-211 (g)	When necessary, demand payment from public officers, employees, administrative bodies, individuals, partnerships, corporations or associations for amount representing the recovery of public funds improperly withheld, misappropriated or otherwise illegally expended and the value of public property disposed of in an unlawful manner.	Investigative	1
Section 7-7-211 (h)	Investigate alleged or suspected violations of state laws by officers or employees of the state, county or other public offices.	Investigative	1
Section 7-7-211 (i)	With the approval of a chancery or circuit court, issue subpoenas to examine records, documents or evidence regarding persons, firms, corporations or other entities insofar as such records, documents or evidence relate to dealings with any state, county or other public entity.	Investigative	1
Section 97-19-77 (4)	Books, documents, records and transactions related to district attorney recoveries of bad check restitution are subject to audit by the State Auditor.	Investigative	1
Section 7-7-67	Investigate the books, accounts and vouchers of all fiscal officers and depositories of the state, and every county, levee board and taxing district of every kind.	Investigative	2
Section 7-7-67	State auditor may investigate the books, accounts and vouchers of any municipality.	Investigative	2
Section 7-7-69	Examine the records, minutes and allowances of board of supervisors, drainage boards and all other boards empowered to make allowances of public money.	Investigative	2
Section 7-7-69	Give notice to boards of accounting errors and funds credited to erroneous accounts.	Investigative	2

Section 7-7-211 (e) and (f)	Postaudit, and when necessary, preaudit and investigate financial matters of the following entities: county governments; public school districts; junior college districts; levee boards; agencies created by the Legislature or by Executive Order; profit or nonprofit business entities administering programs financed by funds flowing through the State Treasury or through any state agency or subdivision; any other local agencies sharing revenues from taxes or fees imposed by the Legislature or receiving grants from revenues collected by state governmental divisions; and all other public bodies supported by funds derived in part or wholly from public funds except municipalities.	Investigative	2
Section 7-7-211 (j)	In the discretion of the State Auditor, make examinations or audits of public hospitals or public school districts from audit reports produced by certified public accountants.	Investigative	2
Section 37-61-29	The Department of Audit is authorized to audit and investigate financial affairs of county school districts.	Investigative	2
Section 7-7-73	Upon belief a public officer or employee has embezzled public funds, notify the Governor and the appropriate district attorney, and attend trial as a witness, if necessary.	Investigative	3
Section 7-7-77	Settle with proper officers monies collected that were improperly withheld, misappropriated or embezzled.	Investigative	3
Section 7-7-77	Report to State Treasurer at the end of each fiscal year all collections and settlements.	Investigative	3
Section 7-7-79	Make a detailed account of the operation of Sections 7-7-67 to 7-7-79 to the Governor once each year and to the Legislature at each regular session.	Investigative	3
Section 7-7-215	Prepare reports for each audit and investigation conducted.	Investigative	3
Section 7-7-215	File one copy of each audit and investigative report in the State Auditor's Office.	Investigative	3
Section 7-7-215	Maintain confidentiality of work papers until findings and exceptions have been reported.	Investigative	3
Section 7-7-217	Maintain a continuing record of exceptions taken on all audits.	Investigative	3

Section 83-1-39 (6) (b)	If the Commissioner of Insurance believes a county is using the insurance rebate monies inappropriately, the commissioner shall request the State Auditor to conduct an investigation.	Investigative	3
Section 7-7-215	File original copies with the offices audited or investigated.	Investigative	4
Section 7-7-215	Preserve one copy of each report for the Governor and/or the Legislature.	Investigative	4
Section 7-7-215	File and retain all audit and investigation reports and work papers pursuant to agreement with the Department of Archives and History.	Investigative	4
Section 7-7-219	Report exceptions taken within 30 days after the close of the fiscal year to the legislative investigating committee or any legislative committee or legislator requesting the information.	Investigative	4
Section 25-4-19 (b)	Assist the Ethics Commission upon request with an investigation.	Investigative	4
Section 47-5-2 (2) (c)	Comply with requests of the Corrections Investigative Taskforce to provide assistance.	Investigative	4
Section 97-37-7 (2)	Investigative auditors are authorized to carry appropriate weapons while in performance of duties.	Investigative	4
Section 25-15-11 (3)	Conduct annually a comprehensive audit, separate and distinct from audit of CAFR, of the State Employees Life and Health Insurance Plan.	Performance Audit	1
Section 7-7-211 (c)	Upon written request by the Governor, the Legislature or legislative designee, study and analyze existing managerial policies, methods, procedures, duties and services of state agencies and institutions, and determine if operations can be eliminated, combined, simplified or improved.	Performance Audit	3
Section 7-7-211 (n)	Conduct performance audits of personal or professional service contracts by state agencies on a random sampling basis, or upon request of the State Personal Service Contract Review Board.	Performance Audit	3
Section 7-7-215	Prepare reports for each audit and investigation conducted.	Performance Audit	3

Section 7-7-215	File one copy of each audit and investigative report in the State Auditor's Office.	Performance Audit	3
Section 7-7-215	Maintain confidentiality of work papers until findings and exceptions have been reported.	Performance Audit	3
Section 25-1-77 (5)	On or before September 1 of each year, State Auditor to prepare and deliver to the Senate and House Appropriations committees and the Joint Legislative Budget Committee a report containing any irregularities concerning purchases of state-owned vehicles.	Performance Audit	3
Section 25-9-120 (3) (h)	Personal Service Contract Review Board may request the State Auditor to conduct a performance audit on any personal or professional service contract.	Performance Audit	3
Section 47-5-559	Upon joint request of the Senate Corrections Committee, the House Penitentiary Committee, the Senate Finance Committee and the House Ways and Means Committee, with the PEER Committee conduct a biennial performance audit of the prison industries nonprofit corporation.	Performance Audit	3
Section 57-75-15 (4) (b) (ii)	The Department of Audit may be reimbursed up to $100,000 from bond proceeds for providing assistance related to any major capital project with an initial capital investment from private sources of not less than $750 million which will create at least 3,000 jobs.	Performance Audit	3
Section 57-75-15 (4) (c) (ii)	The Department of Audit may be reimbursed up to $25,000 from bond proceeds for providing assistance related to any regional retail shopping mall with an initial capital investment from private sources in excess of $150 million, with an excess of 800,000 square feet, which will create at least 700 full-time jobs.	Performance Audit	3
Section 57-75-15 (4) (d) (ii)	The Department of Audit may be reimbursed up to $25,000 from bond proceeds for providing assistance related to any major capital project with an initial capital investment from any source or combined sources of not less than $75 million which will create at least 125 full-time jobs.	Performance Audit	3

Section 57-75-15 (4) (e) (ii)	The Department of Audit may be reimbursed up to $25,000 from bond proceeds for providing assistance related to any project built according to the specifications and federal provisions set forth by the National Aeronautics and Space Administration Center Operations Directorate at Stennis Space Center which will create at least 470 full-time jobs.	Performance Audit	3
Section 57-75-15 (4) (f) (ii)	The Department of Audit may be reimbursed up to $25,000 per each project from bond proceeds for providing assistance related to: 1) any major capital project with an initial capital investment from any source or combined sources of not less than $10 million which will create at least 250 full-time jobs, 2) any major pharmaceutical facility with a capital investment of not less than $50 million which will maintain at least 750 full-time employees, 3) any pharmaceutical manufacturing, packaging and distribution facility with an initial capital investment from any local or federal sources of not less than $500 thousand which will create at least 90 full-time jobs, 4) any major wood processing facility with an initial capital investment of not less than $100 million which will create at least 125 full-time jobs, 5) any technical, engineering, manufacturing-logistic service provider with an initial capital investment of not less than $1 million which will create at least 90 full-time jobs, and 6) any major capital project with an initial capital investment from any source or combined sources of not less than $600 million which will create at least 450 full-time jobs.	Performance Audit	3
Section 69-46-7 (1) (b) (iii)	Mississippi Land, Water and Timber Resources Board may provide the Department of Audit not more than $50,000 from bond proceeds issued in accordance with Chapter 505, *Laws of 2003,* and $50,000 from bond proceeds issued in accordance with Chapter 1 of *Laws of 2004*, Third Extraordinary Session, to assist the board in carrying out the provisions of the Mississippi Land, Water, and Timber Resources Act.	Performance Audit	3
Section 7-7-215	File original copies with the offices audited or investigated.	Performance Audit	4
Section 7-7-215	Preserve one copy of each report for the Governor and/or the Legislature.	Performance Audit	4
Section 7-7-215	File and retain all audit and investigation reports and work papers pursuant to agreement with the Department of Archives and History.	Performance Audit	4

Section 31-7-13 (j)	On or before September 1 of each year, the State Auditor shall prepare and deliver to the Senate Fees, Salaries and Administration Committee, the House Fees and Salaries of Public Officers Committee and the Joint Legislative Budget Committee a report containing a list of all state agency emergency purchases and supporting documentation for each emergency purchase.	Performance Audit	4
Section 29-9-1	Require heads of all state agencies to make inventories of all lands, buildings, equipment, furniture and other personal property, except highway rights of way.	Property	1
Section 25-1-77 (5)	On or before September 1 of each year, State Auditor to prepare and deliver to the Senate and House Fees, Salaries and Administration Committees and the Joint Legislative Budget Committee a report containing any irregularities concerning purchases of state-owned vehicles.	Property	3
Section 29-9-1	Prescribe and furnish inventory forms.	Property	3
Section 29-9-3	Inventories of all lands, buildings, equipment, furniture and other personal property, except highway rights of way, shall include additional information required by the State Auditor.	Property	3
Section 29-9-5	Each original of the inventory shall be delivered to the State Auditor.	Property	3
Section 29-9-7	Compile or cause to be compiled from inventories submitted to the State Auditor one master inventory of all lands, buildings, equipment, furniture and other personal property, except highway rights of way, for the state.	Property	3
Section 29-9-11	On or before 15th of each month, heads of all agencies shall add any additions or make any deletions to their reports on inventories of all lands, buildings, equipment, furniture and other personal property, except highway rights of way, and submit revised reports to the State Auditor.	Property	3
Section 29-9-13	Audit of inventory items of all state agencies.	Property	3
Section 29-9-13	Auditor shall keep his records current and report to the agency concerning any changes made and the general status of the inventory.	Property	3

Section 29-9-15	Upon approval of Attorney General, make rules and regulations necessary to carry out provisions of state property inventory laws.	Property	3
Section 29-9-17 (1)	Upon failure or refusal of state agencies to make property inventories, proceed to make the inventories at the expense of appropriate officers or employees.	Property	3
Section 29-9-17 (2)	Recover the value of items determined by audit to be missing or unaccounted for.	Property	3
Section 29-9-19	Receive from the Director of the Agriculture and Forestry Extension Service at Mississippi State University property information monthly.	Property	3
Section 29-9-21	Maintain state property inventory information on machine equipment.	Property	3
Section 29-9-21	Maintain property records in a complete and current manner.	Property	3
Section 31-7-107	Receive copies of county physical inventories each year.	Property	3
Section 31-7-107	Promulgate regulations for county inventory control clerks in conducting physical inventories of county assets.	Property	3
Section 47-5-543 (1)	Prior to the Department of Corrections leasing prison industries properties to a prison industries nonprofit corporation, perform a comprehensive audit of all prison industries properties.	Property	3
Section 19-25-15	Receive resolutions from county boards of supervisors identifying unmarked county vehicles.	Property	4
Section 25-1-87	Receive from Governor, exemptions given to governmental entities to not mark vehicles in certain instances.	Property	4
Section 25-1-87	Examine vehicles owned or leased by the state, agencies, departments, commissions and political subdivisions for proper identification markings.	Property	4
Section 25-1-87	Report violations of requirements to properly mark vehicles to the Chairman of PEER and agency heads.	Property	4
Section 25-1-87	Impound vehicles not properly marked after notification and 5-day grace period.	Property	4

Section 25-1-87	Notify Tax Commission of municipalities and political subdivisions not in compliance with requirements to properly mark vehicles.	Property	4
Section 25-1-87	Notify Tax Commission of municipalities and political subdivisions that move from noncompliance to compliance with requirements to properly mark vehicles.	Property	4
Section 27-104-107 (3)	Select one of two appraisers to appraise land and buildings that are purchased, leased or rented by the state.	Property	4
Section 29-9-21	Make reports to the Governor and the Legislature when required and when determined necessary.	Property	4
Section 29-17-3 (7)	Select one of two appraisers to appraise land and buildings purchased by the state.	Property	4
Section 31-9-15	The Department of Finance and Administration shall keep a perpetual current inventory on all surplus property as prescribed and installed by the State Department of Audit.	Property	4
Section 31-9-15	The perpetual current inventory of surplus property shall be audited at least once each year by the Department of Audit.	Property	4
Section 37-3-7 (3)	The State Auditor is to cooperate with and assist the State Department of Education in the making of the study and survey of costs of insurance on school buildings and facilities.	Property	4
Section 7-7-211 (a)	Identify and define generally accepted accounting principles for all public offices of the state and its subdivisions.	Technical Assistance	1
Section 7-7-211 (j)	Provide audit programs and final report formats to certified public accountants conducting audits of public hospitals and public school districts.	Technical Assistance	2
Section 21-35-31	Receive two copies of audits or compilations each year from all municipalities.	Technical Assistance	2
Section 21-39-5	Municipalities shall keep records as prescribed by the State Auditor.	Technical Assistance	2
Section 27-105-365 (3)	Audit accounts and records of any hospital owned wholly or in part by a county.	Technical Assistance	2

Section 57-1-303 (5)	Upon determination that a county or municipality is in arrears in repayments to the Local Governments Capital Improvements Revolving Loan Fund, immediately notify the Department of Finance and Administration Executive Director.	Technical Assistance	2
Section 57-44-7 (4)	Upon determination that a county or municipality is in arrears in repayments to the Local Governments Freight Rail Service Project Revolving Loan Fund, immediately notify the Department of Finance and Administration Executive Director.	Technical Assistance	2
Section 7-7-60	Establish regulations for county, municipality and board of education petty cash funds.	Technical Assistance	3
Section 7-7-211 (b)	Prescribe and, when necessary, revise systems of accounting, budgeting and financial reporting for all public offices of regional and local subdivisions of the state.	Technical Assistance	3
Section 7-7-211 (b)	Assist public offices of regional and local subdivisions of the state in the installation of accounting, budgeting and financial reporting systems.	Technical Assistance	3
Section 7-7-211 (b)	Report to the Legislature the status of implementation of systems by public offices of regional and local subdivisions of the state and recommend to the Legislature desirable improvements.	Technical Assistance	3
Section 7-7-211 (f)	Prescribe methods and procedures used by certified public accountants to audit municipalities.	Technical Assistance	3
Section 7-7-211 (l)	Establish training courses and programs for state and local government personnel that are under the jurisdiction of the Office of the State Auditor.	Technical Assistance	3
Section 9-1-43 (3)	Develop accounting methods for the accounting of all sources of income by the offices of the chancery and circuit clerk.	Technical Assistance	3
Section 9-1-45	Design and supply an annual report for the chancery and circuit clerks to file no later than April 15 with the Auditor's Office dealing with salary cap matters.	Technical Assistance	3

Section 17-3-33	A copy of annual audits of convention bureau, local tourism commission or similar entity which receives funds from any special tax or levy shall be provided to the State Department of Audit.	Technical Assistance	3
Section 17-17-347	Establish method for local governments to calculate full cost for solid waste management.	Technical Assistance	3
Section 17-25-1	Establish policies by which governing boards of counties and municipalities may allow the use of credit cards and other forms of electronic payments.	Technical Assistance	3
Section 19-3-41 (2)	Establish rules and regulations for counties to contract with collection agents.	Technical Assistance	3
Section 19-3-77 (1)	Design curriculum for programs of professional education for county purchase clerks, receiving clerks and inventory control clerks.	Technical Assistance	3
Section 19-3-77 (1)	Certify participants who successfully complete one of the programs.	Technical Assistance	3
Section 19-3-77 (1)	May establish fees, to be paid by counties for participants, in a reasonable amount to defray costs of a professional education program.	Technical Assistance	3
Section 19-3-77 (2)	Designate 2 auditor's office employees to serve on the Committee on Supervisor Education, which designs curriculum for professional education for members of county board of supervisors.	Technical Assistance	3
Section 19-4-1	Shall prescribe a course of continuing education for county administrators to be presented annually.	Technical Assistance	3
Section 19-11-9	Shall prescribe forms for county budget preparation.	Technical Assistance	3
Section 19-11-13	Shall prescribe a uniform system of accounts for the counties.	Technical Assistance	3
Section 19-25-13	Prescribe budget forms for county sheriffs.	Technical Assistance	3
Section 19-25-13	Prescribe expense report form for county sheriffs.	Technical Assistance	3
Section 19-25-73 (2)	Prescribe receipts and disbursements journal for county sheriffs to provide information needed to determine actual costs of feeding prisoners.	Technical Assistance	3

Section 21-17-1 (6)	Establish rules and regulations for municipalities to contract with collection agents.	Technical Assistance	3
Section 21-35-7	Prescribe budget forms for municipalities.	Technical Assistance	3
Section 21-35-11	Prescribe systems of accounting for municipalities.	Technical Assistance	3
Section 21-35-29	As necessary, for municipal budget information, make rules, regulations and classifications; prescribe forms; define what expenditures are chargeable to each budget account; and establish accounting and cost systems.	Technical Assistance	3
Section 21-35-31	Promulgate uniform formula for annual municipal audits.	Technical Assistance	3
Section 21-35-31	Prescribe compilation report format, prescribe compliance report format and approve contract accountants for audits of municipalities with population of less than 3,000 that elect such compilation reports.	Technical Assistance	3
Section 25-1-75	Receipt books used by all state boards, commissions, agencies, bureaus, and other departments of the state, and the governing authorities of all counties, municipalities, and other political subdivisions shall be approved by the State Auditor.	Technical Assistance	3
Section 25-3-41 (5)	Adopt rules and regulations regarding travel advances and travel expense documentation for counties, municipalities, departments, boards and commissions.	Technical Assistance	3
Section 27-1-9 (b)	Prescribe budget forms for county tax assessors and collectors.	Technical Assistance	3
Section 27-1-9 (d)	Prescribe form for county tax assessors and collectors to report monthly expenditures to boards of supervisors.	Technical Assistance	3
Section 27-41-29 (2)	The State Auditor may prescribe methods whereby the county tax collector may furnish the tax receipt, preserve duplicate receipts and file duplicate receipts in the chancery clerk's office in a manner that is compatible with available electronic technology.	Technical Assistance	3
Section 27-41-75	The State Auditor shall prescribe the receipt form to be used by tax collector in sales of land sold for taxes.	Technical Assistance	3
Section 31-7-101	Certify county purchase clerks who successfully complete the required professional education program.	Technical Assistance	3

Section 31-7-101	Certify county receiving clerks who successfully complete the required professional education program.	Technical Assistance	3
Section 31-7-103	Prescribe purchasing system requirements for county purchase clerks.	Technical Assistance	3
Section 31-7-107	Prescribe county inventory control systems.	Technical Assistance	3
Section 31-7-107	Certify county inventory control clerks who successfully complete the required professional education program.	Technical Assistance	3
Section 31-7-109	Prescribe receiving system requirements for county receiving clerks.	Technical Assistance	3
Section 31-7-113	Design and prescribe county forms for inventory, purchase requisition, purchase order, receiving report and systems of filing and records necessary for central purchasing systems, receiving systems and inventory control systems.	Technical Assistance	3
Section 37-7-301 (s)	Prescribe a uniform system of accounting and financial reporting for all school district activity funds.	Technical Assistance	3
Section 37-9-14 (7)	Prescribe school district claims docket.	Technical Assistance	3
Section 37-61-5	Prescribe the manner in which unexpended year-end school minimum program funds are charged against minimum program funds for the succeeding fiscal year.	Technical Assistance	3
Section 37-61-9 (1)	Prescribe budget forms for all school districts.	Technical Assistance	3
Section 37-61-9 (3)	Prescribe budget synopsis forms for all school districts.	Technical Assistance	3
Section 37-61-17	Prescribe budget forms for all school districts.	Technical Assistance	3
Section 51-15-158 (1)	Prescribe and provide budget forms for the Pat Harrison Waterway District.	Technical Assistance	3
Section 65-9-23	Give advice and approval to the state aid engineer in promulgating general and uniform rules and regulations for accounting controls required of each board of supervisors relevant to state aid roads.	Technical Assistance	3
Section 69-27-369 (2)	Adopt rules and regulations governing sales conducted at public auction by the Soil and Water Conservation Commission.	Technical Assistance	3

Section 83-39-31 (5)	Establish for appearance bonds regulations and procedures for the timely collection, deposit, accounting and refund of authorized fees.	Technical Assistance	3
Section 99-19-73 (8)	Establish procedures for chancery clerk and municipal clerk settlements of court assessments with the State Treasurer.	Technical Assistance	3
Section 99-19-73 (10)	Establish procedures for refunds of state assessments.	Technical Assistance	3
Section 7-3-45	Design and supply forms to constables for their annual reports on fees and expenses.	Technical Assistance	4
Section 19-3-69 (h)	State Department of Audit to establish standards for auctioneers that may be used by counties to sell personal property.	Technical Assistance	4
Section 17-13-11 (4)	Receive and file for audit purposes all interlocal governmental agreements.	Technical Assistance	4
Section 21-33-47	Receive from municipal clerks copies of municipal tax levy resolutions.	Technical Assistance	4
Section 21-35-31	Prescribe synopsis form for governing authorities to publish municipal audits.	Technical Assistance	4
Section 21-35-31	Report annually to Legislature a composite report showing any information concerning municipalities the State Auditor determines pertinent and necessary.	Technical Assistance	4
Section 27-31-31 (2)	Governing authorities of municipalities shall file a copy of ad valorem tax exemptions for structures within its central business district with the State Auditor.	Technical Assistance	4
Section 27-31-109	Governing authorities of municipalities and counties shall file a copy of ad valorem tax exemptions with the State Auditor.	Technical Assistance	4
Section 49-1-16 (e)	Develop guidelines to govern the establishment by the Mississippi Commission on Wildlife, Fisheries and Parks of a reserve officer identification system to issue conservation officers necessary uniforms and equipment.	Technical Assistance	4
Section 49-15-21 (4) (e)	Develop guidelines to govern the establishment by the Department of Marine Resources of a reserve officer identification system to issue reserve conservation officers necessary uniforms and equipment.	Technical Assistance	4

Section 57-64-23 (4)	A copy of intergovernmental regional economic development agreements shall be filed with the State Auditor for audit purposes no later than 60 days after the agreement shall be in force.	Technical Assistance	4
Section 63-9-21 (2)	Prescribe, with the Attorney General's Office, a uniform traffic ticket.	Technical Assistance	4
Section 63-9-21 (2)	Prescribe, with the Attorney General's Office, a separate traffic ticket to be used exclusively for violations of the Mississippi Implied Consent Law.	Technical Assistance	4
Section 79-11-394 (1) (a)	Nonprofit, nonshare corporation chartered under Section 79-11-101, for the purpose of owning and operating rural waterworks annually shall prepare a financial report on forms provided by the State Auditor.	Technical Assistance	4
Section 79-11-394 (1) (c)	Each corporation required to prepare a financial report shall submit the most recently completed annual financial report to the State Auditor before July 1 of each year.	Technical Assistance	4
Section 79-11-394 (3) (a)	Before July 15, the State Auditor shall provide the State Department of Health a list of all corporations failing to file a report as required.	Technical Assistance	4
Section 83-43-21	Prescribe format of annual statement to be filed by every nonprofit dental service corporation with the State Auditor on or before March 1.	Technical Assistance	4

SOURCE: Department of Audit staff and PEER analysis of Mississippi Code.

Appendix B: Conditions Leading to the Creation of the CAFR

The Need for Generally Accepted Accounting Principles for Government Entities

In as late as the 1970s, government entities had no definitive source of generally accepted accounting principles. Prior to 1979, the accounting profession standard setting process for generally accepted accounting principles (GAAP) did not address government organizations. Various professional organizations developed accounting standards for their specific areas of government operation. For example, sources of GAAP for state and local governments were the Committee on Governmental Accounting and Auditing, National Committee on Governmental Accounting, and the National Council on Governmental Accounting. Similarly, other organizations set GAAP for other sectors of government such as the federal government, colleges and universities, hospitals, and public schools.

Because GAAP for government organizations were determined by multiple organizations, GAAP were not consistent, which led to various interpretations and applications of GAAP. The fragmentation of GAAP and inconsistent interpretation and application created inadequacies in reporting the financial health of governments to taxpayers, investors, and governing bodies.

Evolution of GAAP and CAFR

In March 1979, the National Council on Governmental Accounting (NCGA), a part-time voluntary body associated with the Municipal Finance Officers Association, issued Statement 1, *Governmental Accounting and Financial Reporting Principles,* which contained twelve principles for governmental units to follow in accounting and financial reporting. In part, the principles called for governmental units to conform with GAAP and to prepare and publish a CAFR. Per NCGA, the CAFR should include proper classification by fund type and contain an auditor's report and general purpose financial statements.

However, NCGA was not the definitive source of GAAP for government entities. Other sources, such as the AICPA's industry guide *Audits of State and Local Governmental Units*, required less extensive financial reporting. Without a single definitive source of GAAP, government entities continued to report financial results in varying formats and different levels of detail.

From 1979 through early 1984, the accounting industry and various government industry associations and organizations struggled to establish a single coherent governing body that would have sole authority to promulgate GAAP for government entities. Finally, in April 1984, the involved entities agreed to the creation of the Governmental Accounting Standards Board (GASB) under the Financial Accounting Foundation (FAF). The FAF had established the Financial Accounting Standards Board (FASB) in the early 1970s and FASB had responsibility for establishing accounting standards for all entities other than government.

GASB was created to improve governmental entities' financial reporting standards and improve financial reporting to creditors and government officials who have oversight responsibilities, but might not have easy access to financial information. Officials with government oversight responsibilities include legislatures, school boards, city councils, and boards of trustees. Also, GASB was established with a full-time chairman and full-time research and support staff.

GASB quickly became accepted as the authoritative voice for issuing government accounting standards due to several factors. GASB was created under FAF, which had the same relationship with FASB, the accounting standard setting body for non-governmental entities. GASB was supported by the American Institute of CPAs, whose members performed most of the audits of state and local governments and would be expected to comply with GASB's standards. The Comptroller General of the United States and the General Accounting Office (now the Government Accountability Office) supported GASB and the adoption of its standards. Finally, GASB had the strong support of many state and local government officials and accountants.

In July 1984, GASB issued Statement No. 1, which established NCGA pronouncements and the AICPA Industry Audit Guide as the authoritative sources of GAAP until modified or rescinded by GASB. Therefore, NCGA's requirement of a CAFR with an auditor's opinion became a requirement for government units to comply with GAAP.

Since Mississippi issued its first CAFR in 1986, the importance of a CAFR has grown in importance. Not only is a CAFR with an auditor's opinion required for compliance with GAAP, but a CAFR and the auditor's opinion are expected by financial markets and are used by financial analysts to assess the financial condition of a government unit. Failure to issue a CAFR in conformity with GAAP would be disastrous for the financial standing of Mississippi in the financial markets.

Appendix C: Types of Information Contained in the CAFR

The CAFR presents the basic financial statements of the state in two components: the government-wide financial statements and the fund financial statements. Financial information of state agencies and entities flow into these financial statements. (See Exhibit 6, page 122.)

Government-Wide Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. The Statement of Net Assets reports all of the assets, liabilities, and net assets of the state. The Statement of Activities reports the revenues, expenses, and the net expense or revenue of the government. Fiduciary activities, which are resources that cannot be used to support government operations but are held by the government for the benefit of parties outside the government, such as the Public Employees Retirement System, are not included in the government-wide financial statements.

The government-wide financial statements report government activities in three components:

- **Government activities** – are the state's basic services: general government; education; health and social services; law, justice and public safety; recreation and resource development; regulation of business and professions; and transportation. Most of these activities are financed by taxes and federal grants.
- **Business type activities** – are the cost of providing goods or services to the general public. These activities are financed primarily through user charges. Examples of these type activities are state fair, coliseum and stadium operations; home mortgage loans to veterans, port facilities, and unemployment compensation services.
- **Component Units** – are legally separate entities for which the state is either financially accountable or their nature and significance to the state is important enough so that their omission would cause the financial statements to be misleading or incomplete. Examples include the state's eight universities, Mississippi Business Finance

Corporation, Mississippi Coast Coliseum Commission, Mississippi Development Bank, Mississippi Prison Industries Corporation, and the management and maintenance of water districts such as Pat Harrison Waterway District. Component units are audited by the Department of Audit or other independent auditors. Audited financial statements of the component units are presented separately from the CAFR and are available from each component unit.

Fund Financial Statements

The CAFR also contains fund financial statements, which are related accounts used to maintain control over resources devoted for specific activities or purposes. Fund accounting is used to demonstrate the state's compliance with legal requirements. Funds are divided into three fund components:

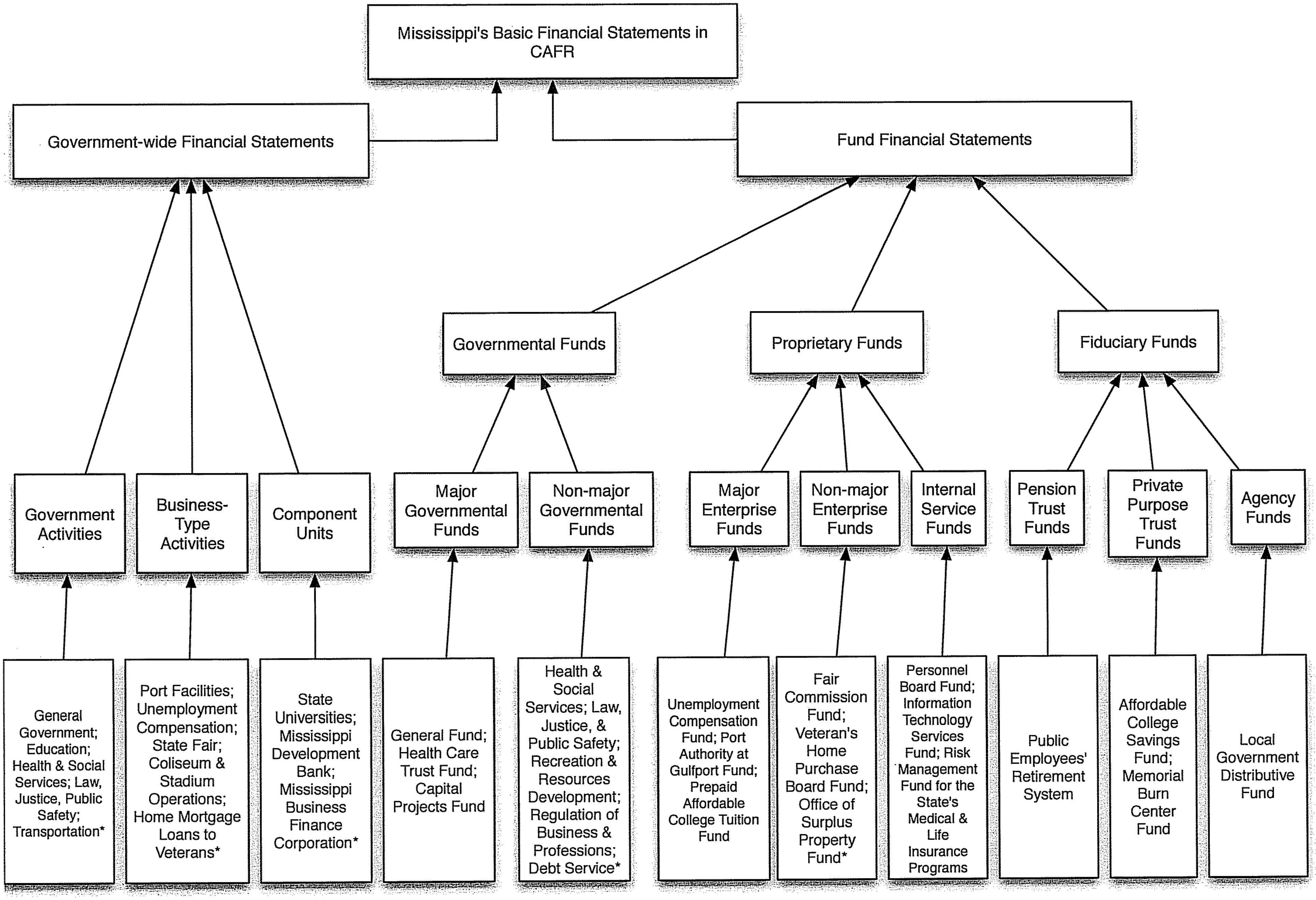
- **Government funds** – account for essentially the same functions reported in the government activities section of the Government wide financial statements. Government funds include the General Fund, the Health Care Fund, and the Capital Projects Fund. These items are presented separately as major funds and require an opinion from the Department of Audit regarding whether these funds present fairly, in all material respects, the financial position of the state in conformity with generally accepted accounting principles. Debt service funds, non-major special revenue funds, and permanent funds are combined into a single column as non-major funds on the governmental fund financial statements. Non-major special revenue funds account for proceeds from specific revenue sources that are legally restricted to specific purposes. Examples include health and social services, law, justice, and public safety, recreation and resources development, and regulation of business and professions. Permanent funds account for resources that are legally restricted to the expenditure of earnings, and not principal, which benefit the government such as royalties and lease of state-owned land used for education improvement.
- **Proprietary funds** - consist of two types of proprietary funds: enterprise and internal service funds.
  - *Enterprise funds* charge fees for services to outside customers. The major enterprise funds are the Unemployment Compensation

Fund, the Port Authority at Gulfport Fund, and the Prepaid Affordable College Tuition Fund. These items are presented separately and require an opinion from the Department of Audit regarding whether these funds present fairly, in all material respects, the financial position of the state in conformity with generally accepted accounting principles. The non-major enterprise funds, such as the Fair Commission Fund and the Veterans' Home Purchase Board Fund, are combined into a single column.

-- *Internal service funds* provide services such as personnel, insurance, and information technology, to other state agencies and government entities on a cost reimbursement basis.

- **Fiduciary Funds** - account for resources held for the benefit of parties outside state government. Fiduciary funds are not presented in the government-wide financial statements because they cannot be used to support state government operations. Examples of fiduciary funds include the Public Employees' Retirement System, the Affordable College Savings Fund, and the Local Government Distributive Fund, which serves as a channel for distributing funds to various counties and municipalities of the state.

Exhibit 6: Components of Mississippi's CAFR



* Items are representative and do not constitute a complete listing.

SOURCE: PEER analysis of FY 2005 CAFR.

STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

RECEIVED
DEC 5 2006
PEER
COMMITTEE

December 4, 2006

HAND DELIVERED
Dr. Max Arinder, Executive Director
PEER Committee
501 North West Street
Woolfolk Building, 3rd Floor
Jackson, Mississippi 39201

Dear Dr. Arinder:

Please accept this as the response to your Performance Review of the State Auditor's Office. First, let me comment on the PEER staff assigned to this review. Each member acted in a professional and courteous manner that exemplifies the staff and management of PEER. The determined and objective manner of your staff has provided an independent review of the constitutional Office of the State Auditor and, "*whether the current operations of the Department of Audit address the state's overall fiscal oversight and accountability needs.*"

After careful review, I see no conflict or disagreement with PEER's findings or recommendations. The staff of the State Auditor's Office will seek to implement these recommendations and work closely with the Mississippi Legislature to develop changes in current law reflective of the findings in this report.

This agency, more than most, recognizes the advantage of a thorough and independent review of its constitutional and legislative mandates and the effectiveness of the current management of resources and manpower to accomplish these goals. This report and the process of the review can be an invaluable tool to achieve a more effective and efficient agency, thereby providing better service to the taxpayer.

The PEER Committee and staff should seek similar opportunities throughout state government for such reviews. Directors and agency heads must recognize these PEER reviews as positive management opportunities and not as punitive or damaging. Once this important evolution occurs, the value of PEER reviews will become recognized for the necessary element of effective government they clearly represent.

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JACKSON, MISSISSIPPI 39201

This agency appreciates the PEER Committee and staff associated with this effort. We stand ready to cooperate in any further endeavors between the State Auditor's Office and the PEER Committee and staff.

With best regards, I remain,

Sincerely,

Phil Bryant
State Auditor

PB/dm

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