



COMMUNICATION TO ENTITY WITH SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES

To the Mayor, Members of the City Council and
Management of the City of Hattiesburg
City of Hattiesburg, Mississippi
Post Office Box 1898
Hattiesburg, Mississippi 39403-1898

To the Mayor, Members of the City Council and Management of the City of Hattiesburg:

In planning and performing our audit of the basic financial statements of the City of Hattiesburg as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered City of Hattiesburg's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hattiesburg's internal control over financial reporting.¹

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We consider the following deficiencies in City of Hattiesburg, Mississippi's internal control to be material weaknesses:

- The City did not implement entity-level control policies and risk assessment procedures during fiscal year 2017 necessary in order to evaluate and address risks related to financial reporting. In particular, the City's organizational structure and lack of personnel with suitable skills, knowledge and experience in financial reporting are important considerations in assessing the City's entity-



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level control environment and risk assessment processes. The City did not implement entity-level internal control procedures during fiscal year 2017 pertaining to the timely identification and communication of information required in the financial reporting process thus limiting the City's ability to meet required deadlines for the submission of annual financial statements required pursuant to legal, regulatory and contractual agreements.

- The City did not implement procedures during fiscal year 2017 necessary for the timely production of financial statements prepared in accordance with generally accepted accounting principles. These delays could expose the City to risks of delay or curtailment of funding resources.
- The City's internal accounting controls during fiscal year 2017 did not readily allow for the conversion of budgetary accounting records to modified accrual and/or accrual bases of accounting required for financial reporting purposes on a timely basis.
- During fiscal year 2017, the City failed to implement internal accounting controls necessary to ensure that Municipal Court fines receivable and assessments payable balances were complete, accurate and properly valued in accordance with U.S. generally accepted accounting principles and in compliance with Mississippi laws.
- The City did not implement internal controls during fiscal year 2017 that were sufficient to ensure that Water and Sewer customer account balances are complete, accurate, properly valued, and reported in the proper period. There was a lack of timely review and reconciliation of subsidiary account balances that could allow for significant errors to go undetected.
- During fiscal year 2017 the City failed to implement internal controls to ensure that Water and Sewer billings are complete and accurate, including procedures that address unaccounted for water volume and adjustments to customer billings. There is a risk that the City would not detect Water and Sewer usage at unmetered locations or significant leaks in the Water and Sewer System.
- The City's internal accounting controls do not allow for the timely review or reconciliation of Water and Sewer customer meter deposit balances, resulting in the City not being able to determine the cumulative amount of unrecorded applied meter deposits or the nature and amounts of other potential errors.
- The City's internal accounting controls over capital assets do not ensure that all assets are properly recorded, depreciated, assessed for impairment, and reported. Subsidiary records do not routinely monitor assets acquired with federal grants and do not include a comprehensive schedule of construction projects sufficient for financial reporting.
- The City does not have adequate internal controls to monitor compliance with Federal suspension and debarment regulations for contracts and subawards. This could result in the City contracting with parties who have been suspended or debarred by the Federal government.
- The City's general ledger system lacks the complexity necessary to capture all accounting data related to Federal program expenditures, and peripheral systems can not sufficiently determine that all federal program cost categories are readily identified and reported. These accounting records are necessary in order to properly segregate Federal and non-Federal expenditures and to identify matching funds provided.
- The City did not comply with Federal Single Audit requirements for the timely submission of the City's fiscal year 2017 reporting package and the data collection form pursuant to the Uniform Guidance within the specified deadlines.
- The City did not adequately account for capital projects funded by Federal awards. In particular, the City did not monitor its capital projects reimbursement requests prepared by third party service providers or recalculate and reconcile Federal costs to those reimbursement requests. Additionally, the City did not monitor compliance with property ownership and reversionary provisions in order to assess its rights and obligations under such agreements. The City may be subject to material disallowed costs or obligations under revisionary provisions for assets purchased or constructed using Federal funds.

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- During fiscal year 2017 City did not effectively monitor the timely filing of the required quarterly progress reports prescribed in an executed State-Local Disaster Assistance Agreement, and as a result, the City may be subject to disallowed disaster-related expenditures.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the entity's internal control to be a significant deficiency:

- The City's accounting system did not contemporaneously distinguish allowable Federal program costs from ineligible costs, distinguish between Federal and non-Federal expenditures or specifically identify costs used to meet match and cost-sharing requirements pursuant to the Uniform Guidance. Additionally, the City has no effective process to ensure that direct and indirect costs are properly administered by various City departments.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.²



Hattiesburg, Mississippi
November 15, 2018