



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

LETTER OF ENGAGEMENT

March 4, 2015

To the Members of the Board of Supervisors
Madison County, Mississippi

We are pleased to confirm our understanding of the services we are to provide Madison County for the year ending September 30, 2014. We will audit the financial statements of the governmental activities, the business-type activities (if applicable), each major fund and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the county's basic financial statements as of and for the year ended September 30, 2014. However, we will not expand the scope of our audit procedures beyond the county's records as primary government. Accounting standards generally accepted in the United States of America provide for certain Required Supplementary Information (RSI), such as Management's Discussion and Analysis to supplement Madison County's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. As part of our engagement, we will apply certain limited procedures to Madison County's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The following Required Supplementary Information (RSI) is required by U.S. generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis (if prepared by management)
2. Budgetary Comparison Schedules for General Fund and Major Special Revenue Funds
3. Schedule of Funding Progress – Other Postemployment Benefits (if applicable)

We have also been engaged to report on supplementary information other than RSI that accompanies the county's financial statements. We will subject the following supplementary information to the auditing

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procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

1. Schedule of Expenditures of Federal Awards (if applicable)
2. Reconciliation of Operating Costs of Solid Waste (if applicable)

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

1. Schedule of Surety Bonds for County Officials

Section 7-7-211(e), Miss. Code Ann. (1972), requires the Office of the State Auditor to audit the financial records of the county for each fiscal year. Financial statements include the financial data of the county as primary government and the financial data of the county's component units, if any, necessary for fair presentation in conformity with accounting principles generally accepted in the United States of America.

If the county desires the financial statements of any mutually agreed-upon component units to be included in one report, then the county must provide us the audited financial statements of those entities, prepared in accordance with the financial reporting model described in GASB Statement No. 34, during the early stages of the audit engagement. If the county desires to omit one or more, but not all component units, the auditor's report will be qualified or adverse if material component units that should be included are omitted. Further, since component unit financial statements will be audited by other auditors, our opinion, insofar as it relates to the amounts included for component units, will be based solely upon the reports of the other auditors. The inclusion of component unit audited financial statements in one report would provide readers of the report with financial statements on the entire financial reporting entity.

Our opinion will be on the financial statements of the governmental activities, the business-type activities (if applicable), each major fund, the aggregate remaining fund information and the discretely presented component units, which collectively comprise the county's financial statements as of and for the year ended September 30, 2014.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of Madison County and other procedures we consider necessary to enable us to express such opinions and to render required reports. Our examination of the Purchasing System and Inventory Control System will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary

for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

The objective also includes reporting on:

- Internal control that does not include an opinion related to the financial statements and compliance with laws, regulations, the provisions of contracts or grant agreements, and other matters, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. (If applicable)
- Central purchasing system, inventory control system and purchase clerk schedules (required by Section 31-7-115, Miss. Code Ann. (1972)) and an opinion on compliance with state laws governing central purchasing, inventory and bid requirements.

The reports on internal control and compliance will each include a paragraph that states that the purpose of the report is solely to describe (1) the scope of testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (2) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance, and (3) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and the OMB Circular A-133 report on internal control over compliance will include a paragraph that states the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. The reports will also state that the report is not suitable for any other purposes. The report on the central purchasing system, inventory control system and purchase clerk schedules will include a statement that the report is intended for use in evaluating the central purchasing system and inventory control system of the county and is not intended to be and should not be relied upon for any other purpose. These reports will each include a statement that the report is a matter of public record and its distribution is not limited.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. We will issue written reports upon completion of our Single Audit. Our reports will be addressed to the members of the Board of Supervisors as management of Madison County. We cannot provide assurance that unmodified opinions will be

expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

A management letter will also be issued on various procedures performed related to selected sub-offices of the county.

The county's management will be allowed to respond to our comments on any findings included in the above reports prior to publication of our report. Responses should be limited to fifty words for each finding. Responses will then be included in the published audit report.

Management Responsibilities

Management is responsible for the basic financial statements, Schedule of Expenditures of Federal Awards, and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements and for the preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of OMB Circular A-133.

Management is responsible for (a) establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (b) following laws and regulations; (c) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (d) ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities (if applicable), the aggregate discretely presented component units (if applicable), each major fund, and the aggregate remaining fund information of Madison County and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

You are responsible for the preparation of your financial statements which include the government-wide financial statements, the fund financial statements and notes to the financial statements. You are also responsible for the preparation of Management's Discussion and Analysis, the Budgetary Comparison Schedules for the General Fund and Major Special Revenue Funds, the Schedule of Expenditures of Federal Awards and the Reconciliation of Operating Costs of Solid Waste (if applicable).

Management is also responsible for making all financial records and related information available to us (including access to any computer media data maintained at the county or datasets at the software provider) and for ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. As part of our engagement, we may propose standard, adjusting or correcting journal entries to your financial statements. You are responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the financial statements. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles and the safeguarding of assets. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud, or illegal acts affecting the county involving (1) management, (2) employees who have significant roles in internal control and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud, or illegal acts affecting the county received in communications from employees, former employees, grantors, regulators or others. In addition, you are responsible for identifying and ensuring that the county complies with applicable laws, regulations, contracts, agreements and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

You are responsible for preparation of the schedule of expenditures of federal awards in conformity with OMB Circular A-133. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon, or make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with OMB Circular A-133; (2) you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with OMB Circular A-133; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

You are also responsible for the preparation of the supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentations of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) that you believe the

supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management will appoint an audit representative or representatives to discuss draft findings and other audit matters with us during the course of the audit. Management is responsible for documenting their approved audit representative or representatives in a letter to us during the beginning stages of the audit.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

With regard to using the auditor's report, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering official statements or other documents.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the county or to acts by management or employees acting on behalf of the county. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our

attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements' and other responsibilities required by generally accepted auditing standards.

Audit Procedures - Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

If we are required to perform a Single Audit, as required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under standards established by the American Institute of Certified Public Accountants, *Government Auditing Standards* and OMB Circular A-133.

Audit Procedures - Compliance

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Madison County's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

If we are required to perform a Single Audit, OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the county has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. If we are required to perform a Single Audit, our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* and related addenda for the types of compliance requirements that could have a direct and material effect on each of the county's major programs. The purpose of those procedures will be to express an opinion on the county's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees and Other

We understand that your employees will provide assistance to our staff in the form of preparation of account summaries, will locate any documents selected by us for testing and other tasks, which could help reduce the time spent on the audit. We also understand that you will provide us with adequate working space in your office and access to all records and other information requested in connection with the audit.

Management agrees and accepts responsibility for making a determination of all potentially significant component units for the fiscal year ending September 30, 2014.

If we are required to perform a Single Audit, at the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The audit documentation for this engagement is the property of the Office of the State Auditor and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the applicable oversight agency for audit or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Office of the State Auditor personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the oversight agency for audit or pass-through entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

We expect to begin our audit on approximately March 4, 2015.

Our fee for these services, including report processing, will be based on the actual time spent at our standard hourly rates and will be billed directly to the county. Our invoices for these fees will be rendered as work progresses and are payable on presentation. We estimate our fee for these services will be approximately \$59,000.

This estimate is based on historical costs, anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. We may have to expand our audit requirements for the following reasons:

- Condition or auditability of financial records.
- Single Audit requirements.
- Errors and irregularities discovered during the course of the audit.
- Lack of cooperation and assistance from personnel and computer assistance when needed.

If significant additional time is necessary, we will discuss this matter with you in advance.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our most recent peer review report accompanies this letter.

Government Auditing Standards require that we inform the auditee about information relating to certain audit responsibilities. Therefore, we have provided you at the beginning of our audit engagement a written report called "Our Responsibilities as Your Entity's Auditor." These responsibilities involve testing and reporting on internal controls and compliance with laws and regulations.

We believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign in the space provided below.

Sincerely yours,



J. Scott Speights, CPA, CIA, CGMA, CGAP, MBA
Director
County Audit Section

Response:

This letter correctly sets forth the understanding of Madison County.

President, Board of Supervisors