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**State of Mississippi**  
**Department of Public Safety**

Independent Auditor's Reports and  
Financial Statements of Funds Selected for Audit

June 30, 2014



**State of Mississippi**  
**Department of Public Safety**  
June 30, 2014

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## Independent Auditor's Report

Commissioner Albert E. Santa Cruz  
State of Mississippi  
Department of Public Safety  
Jackson, Mississippi

### Report on the Financial Statements of Funds Selected for Audit

We have audited the accompanying basic financial statements of the governmental activities of the Driver Service Fees Fund, the Weapons Permit Fund, the Disability and Relief Fund, the Driver's License Photo Fees Fund and the Driver's License Special Fees Fund of the State of Mississippi Department of Public Safety (DPS), which are comprised of balance sheets as of June 30, 2014, and statements of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the basic financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Driver Service Fees Fund, the Weapons Permit Fund, the Disability and Relief Fund, the Driver's License Photo Fees Fund and the Driver's License Special Fees Fund of the State of Mississippi Department of Public Safety as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in *Note 1*, the financial statements present only the Driver Service Fees Fund, the Weapons Permit Fund, the Disability and Relief Fund, the Driver's License Photo Fees Fund and the Driver's License Special Fees Fund selected for audit by the State of Mississippi, Office of the State Auditor and do not purport to, and do not present fairly the financial position of the State of Mississippi Department of Public Safety as of June 30, 2014, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015, on our consideration of DPS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DPS' internal control over financial reporting and compliance.

*BKD, LLC*

Jackson, Mississippi  
January 29, 2015

**State of Mississippi**  
**Department of Public Safety**  
**Balance Sheets of Funds Selected for Audit**  
**June 30, 2014**

	<b>Governmental Fund Type</b>				
	<b>Driver Service Fees Fund 3716</b>	<b>Weapons Permit Fund 3717</b>	<b>Disability and Relief Fund 371A</b>	<b>Driver's License Photo Fees Fund 371B</b>	<b>Driver's License Special Fees Fund 371C</b>
<b>Assets</b>					
Cash	\$ 7,960,699	\$ 1,514,200	\$ 278,386	\$ 1,964,665	\$ 1,495,828
Accounts receivable	1,513,866	-	-	-	-
Due from other funds	157,886	294,693	544,012	946,801	735,762
Inventory	996,976	-	-	-	-
Other current assets	20,500	-	-	-	-
Total assets	<u>\$ 10,649,927</u>	<u>\$ 1,808,893</u>	<u>\$ 822,398</u>	<u>\$ 2,911,466</u>	<u>\$ 2,231,590</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 1,605,177	\$ -	\$ -	\$ 779,921	\$ 12,500
Warrants payable	43,791	-	-	5,268	-
Due to other funds	1,159,060	-	-	-	-
Total liabilities	<u>2,808,028</u>	<u>-</u>	<u>-</u>	<u>785,189</u>	<u>12,500</u>
<b>Fund Balances</b>					
Nonspendable					
Inventories	996,976	-	-	-	-
Committed to law enforcement	-	1,808,893	-	-	-
Restricted for law enforcement	6,844,923	-	822,398	2,126,277	2,219,090
Total fund balances	<u>7,841,899</u>	<u>1,808,893</u>	<u>822,398</u>	<u>2,126,277</u>	<u>2,219,090</u>
Total liabilities and fund balances	<u>\$ 10,649,927</u>	<u>\$ 1,808,893</u>	<u>\$ 822,398</u>	<u>\$ 2,911,466</u>	<u>\$ 2,231,590</u>

**State of Mississippi**  
**Department of Public Safety**  
**Statements of Revenues, Expenditures and**  
**Changes in Fund Balances of Funds Selected for Audit**  
**Year Ended June 30, 2014**

	Governmental Fund Type				
	Driver Service Fees Fund 3716	Weapons Permit Fund 3717	Disability and Relief Fund 371A	Driver's License Photo Fees Fund 371B	Driver's License Special Fees Fund 371C
<b>Revenues</b>					
Driver's license fees	\$ 5,415,685	\$ 74,224	\$ 3,760,913	\$ 5,580,063	\$ 4,939,682
Vehicle inspection fees	164,916	-	-	-	-
Sales of supplies	235,654	725,263	18,394	-	-
Sales of personal property	116,957	-	-	-	-
Other highway safety patrol fees	45,940	1,418,719	-	-	-
Other license fees and permits	128,437	-	-	-	-
Other income	200,335	-	-	-	-
	<u>6,307,924</u>	<u>2,218,206</u>	<u>3,779,307</u>	<u>5,580,063</u>	<u>4,939,682</u>
Total revenues					
	<u>6,307,924</u>	<u>2,218,206</u>	<u>3,779,307</u>	<u>5,580,063</u>	<u>4,939,682</u>
<b>Expenditures</b>					
Current					
Travel	210,015	-	-	-	-
Contractuals	6,273,015	516,545	-	4,686,326	-
Commodities	4,711,390	1,500	-	-	-
Retirement benefits	-	-	3,498,986	-	-
Capital outlay	1,452,142	5,640	-	-	695,169
Total expenditures	<u>12,646,562</u>	<u>523,685</u>	<u>3,498,986</u>	<u>4,686,326</u>	<u>695,169</u>
Excess of Revenues Over (Under) Expenditures	<u>(6,338,638)</u>	<u>1,694,521</u>	<u>280,321</u>	<u>893,737</u>	<u>4,244,513</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	12,281,498	-	-	-	-
Transfers out	<u>(160,925)</u>	<u>(3,000,000)</u>	<u>-</u>	<u>-</u>	<u>(3,650,000)</u>
	<u>12,120,573</u>	<u>(3,000,000)</u>	<u>-</u>	<u>-</u>	<u>(3,650,000)</u>
<b>Net Change in Fund Balances</b>	5,781,935	(1,305,479)	280,321	893,737	594,513
<b>Fund Balances, Beginning of Year</b>	<u>2,059,964</u>	<u>3,114,372</u>	<u>542,077</u>	<u>1,232,540</u>	<u>1,624,577</u>
<b>Fund Balances, End of Year</b>	<u>\$ 7,841,899</u>	<u>\$ 1,808,893</u>	<u>\$ 822,398</u>	<u>\$ 2,126,277</u>	<u>\$ 2,219,090</u>

**State of Mississippi**  
**Department of Public Safety**  
**Notes to Financial Statements of Funds Selected for Audit**  
**June 30, 2014**

**Note 1: Significant Accounting Policies**

***Background Information***

The State of Mississippi Department of Public Safety (DPS), an agency of the State of Mississippi, follows fund accounting with respect to DPS funds and pursuant to applicable state statutes. Driver Service Fees Fund, Driver's License Photo Fees Fund and Driver's License Special Fees Fund are funds used by DPS to account for revenues and fees related to driver's license issuances and other driver service fees. Revenues generated from these funds are used to defray the operating costs of the Division of Highway Safety Patrol and to cover costs associated with generating photo licenses.

The Weapons Permit Fund is used by DPS to account for issuances of firearm permits. Revenues generated from this fund are used to administer the weapons permit law. The Disability and Relief Fund is the fund used to account for motor vehicle registration and reinstatement fees. Fees collected by this fund are used to fund the Mississippi Highway Safety Patrol Retirement System for Bureau of Narcotics employees.

These funds represent funds selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying presentation does not purport to present the financial position and changes in financial position of DPS.

***Basis of Presentation***

The accompanying fund financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board.

***Account Classifications***

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting*, as issued by the Government Finance Officers Association.

***Fund Accounting***

The financial activities of the funds audited are recorded in individual funds and account groups used to report financial position and changes in financial position. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

**State of Mississippi**  
**Department of Public Safety**  
**Notes to Financial Statements of Funds Selected for Audit**  
**June 30, 2014**

***Basis of Accounting/Measurement Focus***

The Governmental Fund Type is accounted for on a flow of current financial resources measurement focus. This focus measures financial resources available to the entity in the near future as a result of transactions and events of the fiscal period reported. The modified accrual basis of accounting is utilized. Under this method, revenues are recognized when they become measurable and available, and expenditures are recognized at the time liabilities are incurred.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and other changes in fund balances during the reporting period. Actual results could differ from those estimates.

***Revenue Recognition***

Revenues from fees are recognized when they are received. Revenues from services or supplies are recognized when the services or supplies are provided. Other revenues in the various funds are generally recognized when the revenue is received or appropriated by the State of Mississippi Legislature.

***Cash and Cash Equivalents***

Cash includes cash on hand and demand deposits. All short-term, highly liquid investments that are readily convertible to cash (generally with a maturity of three months or less) are considered cash equivalents. At June 30, 2014, there were no cash equivalents.

***Interfund Receivables/Payables***

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due from or due to other funds." Noncurrent portions of interfund receivables/payables are reported as "advances to or advances from other funds."

***Accounts Receivable***

Accounts receivable consist of amounts billed by a third party related to public searches of motor vehicle registrations. Accounts receivable are reported net of allowances for uncollectible accounts, where applicable. No allowance for uncollectible accounts is recorded at June 30, 2014.

**State of Mississippi**  
**Department of Public Safety**  
**Notes to Financial Statements of Funds Selected for Audit**  
**June 30, 2014**

***Inventories***

Inventories consist of office materials, cleaning supplies, clothing, motor vehicle operating supplies and communication supplies. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

***Fund Balances – Governmental Funds***

The fund balances for DPS' governmental funds are displayed in three components.

- ***Nonspendable*** – Amounts that are not in a spendable form or are required to be maintained intact, such as inventories.
- ***Restricted*** – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.
- ***Committed*** – Amounts that can be used only for the specific purposes determined by a formal action of the State of Mississippi Legislature.

DPS considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available.

**Note 2: Cash and Other Deposits**

Custodial risk is the risk that in the event of bank failure, a government's deposits may not be returned. DPS' deposit policy for protection of custodial risk is handled under a statewide collateral program. The collateral for public entities' deposits in financial institutions is held by the depository bank in the name of the State Treasurer under a program established by the State of Mississippi Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entities' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

**Note 3: Defined Benefit Pension Plan**

DPS participates in the Public Employees' Retirement System of Mississippi (PERS) a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries.

**State of Mississippi**  
**Department of Public Safety**  
**Notes to Financial Statements of Funds Selected for Audit**  
**June 30, 2014**

Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS.

During fiscal year 2014, PERS members were required to contribute 9% of their annual covered salary, and DPS is required to contribute at an actuarially determined rate, which was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. DPS' contributions are made at the agency level; therefore, information is not available on contributions by specific funds.

**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on  
Compliance and Other Matters Based on an  
Audit of the Financial Statements Performed in Accordance  
With Government Auditing Standards**

Commissioner Albert E. Santa Cruz  
State of Mississippi  
Department of Public Safety  
Jackson, Mississippi

We have audited, 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, the basic financial statements of the funds selected for audit consisting of the Driver Service Fees Fund, the Weapons Permit Fund, the Disability and Relief Fund, the Driver's License Photo Fees Fund and the Driver's License Special Fees Fund of the State of Mississippi Department of Public Safety (DPS), which are comprised of balance sheets as of June 30, 2014, and statements of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 29, 2015, which contained an *Emphasis of Matter* paragraph regarding the entity reflected in the financial statements.

***Internal Control Over Financial Reporting***

Management of DPS is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits, we considered DPS' internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DPS' internal control. Accordingly, we do not express an opinion on the effectiveness of DPS' internal control.

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 material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material

misstatement of DPS' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2014-001 to be a material weakness.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether DPS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to DPS' management in a separate letter dated January 29, 2015.

### ***DPS' Response to Findings***

DPS' response to the finding identified in our audits is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DPS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BKD, LLP*

Jackson, Mississippi  
January 29, 2015

**State of Mississippi**  
**Department of Public Safety**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2014**

<b>Reference Number</b>	<b>Finding</b>
<b>2014-001</b>	<p><b><i>Criteria or Specific Requirement</i></b> – Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.</p> <p><b><i>Condition</i></b> – DPS did not have procedures in place to ensure that all significant revenues are allocated among appropriate funds and agencies and, thus, are properly stated in accounting principles generally accepted in the United States of America (GAAP) reporting financial statements.</p> <p><b><i>Effect</i></b> – As a result, an adjustment was recorded to true-up interfund revenue allocations.</p> <p><b><i>Cause</i></b> – DPS has not designed internal control procedures for proper allocation of interfund and interagency revenues.</p> <p><b><i>Recommendation</i></b> – DPS should implement a policy to properly allocate and account for interagency revenue. Additionally, there should be appropriate review and approval of the allocations.</p> <p><b><i>View of Responsible Officials and Planned Corrective Actions</i></b> – Management will implement more thorough procedures in future periods to ensure all material interagency revenues are allocated and recorded properly.</p>