



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

State of Mississippi
Department of Information Technology Services

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

June 30, 2014



State of Mississippi
Department of Information Technology Services
June 30, 2014

Contents

Independent Auditor’s Report	1
 Financial Statements of Funds Selected for Audit	
Internal Service Fund Type	
Balance Sheet	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows	5
Governmental Fund Type	
Balance Sheet	6
Statement of Revenues, Expenses and Changes in Fund Balance.....	7
Notes to Financial Statements	8
 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 <i>Government Auditing Standards</i>.....	
Schedule of Findings and Responses	15

Independent Auditor's Report

Board of Directors
State of Mississippi
Department of Information Technology Services
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 MWCC Operating Fund and the business-type activities of the Information Technology Services Fund of the State of Mississippi Department of Information Technology Services (ITS), as of and for the year ended June 30, 2014, and the related notes to the basic financial statements, as listed in the table of contents.

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 MWCC Operating Fund and the business-type activities of the Information Technology Services Fund of the State of Mississippi Department of Information Technology Services as of June 30, 2014, and the respective changes in financial position and cash flows, as applicable, 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 Information Technology Service Fund and the MWCC Operating Fund representing funds 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 Information Technology Services 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 28, 2015, on our consideration of ITS' 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 ITS' internal control over financial reporting and compliance.

BKD, LLC

Jackson, Mississippi
January 28, 2015

State of Mississippi
Department of Information Technology Services
Balance Sheet of Fund Selected for Audit
Internal Service Fund Type
June 30, 2014

	Information Technology Services Fund 3601
Assets	
Current Assets	
Cash	\$ 3,313,259
Accounts receivable	33,930
Due from other funds	4,641,710
Total current assets	7,988,899
Noncurrent Assets	
Capital assets	
Furniture and equipment	23,359,445
Infrastructure	1,627,014
Land improvements and building	27,122,437
Capital assets under lease	1,515,014
	53,623,910
Less accumulated depreciation	(20,670,033)
Net capital assets	32,953,877
Total assets	\$ 40,942,776

**Information
Technology
Services
Fund 3601**

Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 1,645,755
Accrued expenses	886,995
Due to other funds	3,820
Current portion of lease payable	<u>304,692</u>

Total current liabilities	2,841,262
---------------------------	-----------

Lease payable	<u>635,966</u>
---------------	----------------

Total liabilities	3,477,228
-------------------	-----------

Net Position

Net investment in capital assets	32,013,219
Unrestricted	<u>5,452,329</u>

Total net position	<u>37,465,548</u>
--------------------	-------------------

Total liabilities and net position	<u><u>\$ 40,942,776</u></u>
------------------------------------	-----------------------------

State of Mississippi
Department of Information Technology Services
Statement of Revenues, Expenses and Changes in
Net Position of Fund Selected for Audit
Internal Service Fund Type
Year Ended June 30, 2014

	Information Technology Services Fund 3601
Operating Revenues	
Sale of supplies and services	\$ 39,656,238
Other	6,953
	39,663,191
 Operating Expenses	
Salaries	10,628,126
Travel	102,709
Contractuals	28,681,429
Commodities	589,346
Depreciation	3,172,791
	43,174,401
 Operating Loss	(3,511,210)
 Nonoperating Revenues (Expenses)	
Capital contributions	712,183
Loss on disposal of capital assets	(5,638)
Interest expense	(33,271)
	673,274
 Decrease in Net Position	(2,837,936)
 Net Position, Beginning of Year	40,303,484
 Net Position, End of Year	\$ 37,465,548

State of Mississippi
Department of Information Technology Services
Statement of Cash Flows of Fund Selected for Audit
Internal Service Fund Type
Year Ended June 30, 2014

	Information Technology Services Fund 3601
Operating Activities	
Cash received from customers	\$ 39,818,867
Cash paid to employees and suppliers	(41,281,362)
Net cash used in operating activities	(1,462,495)
Capital and Related Financing Activities	
Principal and interest payments on debt	(329,432)
Capital expenditures	(2,887,923)
Net cash used in capital and related financing activities	(3,217,355)
Decrease in Cash	(4,679,850)
Cash, Beginning of Year	7,993,109
Cash, End of Year	\$ 3,313,259
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Net cash from operating activities	
Operating loss	\$ (3,511,210)
Depreciation	3,172,791
Changes in operating assets and liabilities	
Accounts receivable and due from other funds	155,676
Accounts payable and due to other funds	(1,272,564)
Accrued expenses	(7,188)
Net cash used in operating activities	\$ (1,462,495)

State of Mississippi
Department of Information Technology Services
Balance Sheet of Fund Selected for Audit
Governmental Fund Type
June 30, 2014

	MWCC Operating Fund 3605
Assets	
Due from other funds	\$ 1,537,014
Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 1,537,014
Fund Balance	
Restricted	-
Total liabilities and fund balance	\$ 1,537,014

State of Mississippi
Department of Information Technology Services
Statement of Revenues, Expenses and Changes in
Fund Balance of Fund Selected for Audit
Governmental Fund Type
Year Ended June 30, 2014

	MWCC Operating Fund 3605
Revenues	
Federal grant revenue	\$ 11,635,878
Federal subgrant revenue	<u>823,021</u>
Total revenues	<u>12,458,899</u>
 Expenditures	
Contractuals	503,664
Capital outlay	<u>3,403,514</u>
Total expenditures	<u>3,907,178</u>
 Net Change in Fund Balance	 8,551,721
 Fund Deficit, Beginning of Year	 <u>(8,551,721)</u>
 Fund Balance, End of Year	 <u><u>\$ -</u></u>

State of Mississippi
Department of Information Technology Services
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 Information Technology Services (ITS), an agency of the State of Mississippi, follows fund accounting with respect to its funds and pursuant to applicable state statutes. The Information Technology Services Fund (ITS Fund) is an internal service fund responsible for the operations of the state data center, administration of telecommunications, providing services for the development and planning of data processing, and for the maintenance of the central telephone system.

The MWCC Operating Fund (MWCC) is a general governmental fund that is responsible for the construction, maintenance and operation of a statewide wireless communications system.

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 ITS.

Basis of Presentation

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

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.

Basis of Accounting/Measurement Focus

The accounting records of the ITS Fund are maintained on the economic resources measurement focus and the accrual basis in accordance with GAAP, issued by GASB, applicable to governmental entities that use proprietary fund accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

The accounting records of MWCC 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.

State of Mississippi
Department of Information Technology Services
Notes to Financial Statements of Funds Selected for Audit
June 30, 2014

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash consists of amounts on deposit with the State Treasury. For purposes of the statement of cash flows, when applicable, ITS considers all highly liquid investments and certificates of deposit to be cash equivalents if they have a maturity of three months or less when acquired. There were no cash equivalents as of June 30, 2014.

Accounts Receivable

Accounts receivable are reported net of allowances for uncollectible accounts, where applicable. No allowance for uncollectible accounts was recorded as of June 30, 2014.

Interfund Receivables/Payables

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

Capital Assets

In the ITS Fund, capital assets acquired or constructed are recorded at historical cost and depreciated using the straight-line method over the estimated useful lives of the assets. Capital assets are not recorded in the MWCC.

Net Position

Net position of the ITS Fund is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

State of Mississippi
Department of Information Technology Services
Notes to Financial Statements of Funds Selected for Audit
June 30, 2014

Fund Balances – Governmental Fund

The fund balance for the MWCC, if any, is displayed as restricted for general government purposes, which relates to 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.

Classification of Revenues

The ITS Fund has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as telecommunication and consulting fees.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as contributions.

The MWCC recognizes revenues in the period in which they are earned and become measurable. This method allows matching of revenues earned during a period with the expenditures incurred in the production of the revenues.

Future Effective Accounting Pronouncements

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, (GASB 68) is effective for ITS for the year ending September 30, 2015. This Statement requires the recognition of the entire net pension liability attributable to the governmental entity and provides for a more comprehensive measure of pension expense for employer and governmental nonemployer contributing entity financial reports. ITS is currently evaluating the impact of GASB 68 on its financial statements.

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. ITS' 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.

State of Mississippi
Department of Information Technology Services
Notes to Financial Statements of Funds Selected for Audit
June 30, 2014

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Estimated Useful Life	Beginning Balance	2014		Ending Balance
			Additions	Disposals	
Furniture and equipment	3-10 years	\$ 20,568,069	\$ 3,580,101	\$ (788,725)	\$ 23,359,445
Infrastructure	20 years	1,627,014	-	-	1,627,014
Land improvements and building	20-40 years	27,102,434	20,003	-	27,122,437
Capital assets under lease	5 years	1,515,014	-	-	1,515,014
		<u>50,812,531</u>	<u>3,600,104</u>	<u>(788,725)</u>	<u>53,623,910</u>
Less accumulated depreciation					
Furniture and equipment		16,252,872	2,059,343	(783,087)	17,529,128
Infrastructure		618,266	65,080	-	683,346
Land improvements and building		862,102	543,362	-	1,405,464
Capital assets under lease		547,089	505,006	-	1,052,095
		<u>18,280,329</u>	<u>3,172,791</u>	<u>(783,087)</u>	<u>20,670,033</u>
Net capital assets		<u>\$ 32,532,202</u>	<u>\$ 427,313</u>	<u>\$ (5,638)</u>	<u>\$ 32,953,877</u>

Note 4: Capital Lease

In June 2012, ITS entered into a capital lease agreement through the State of Mississippi to acquire a mainframe server. The original amount of the lease was \$1,531,646, and the lease bears interest at 2.86% per annum. ITS makes semiannual payments, with the final payment due on April 10, 2017.

The capital lease activity for 2014 is summarized as follows:

Balance, July 1, 2013	\$ 1,236,819
Principal payments	<u>(296,161)</u>
Balance, June 30, 2014	<u>\$ 940,658</u>

State of Mississippi
Department of Information Technology Services
Notes to Financial Statements of Funds Selected for Audit
June 30, 2014

The future minimum commitments under capital lease as of June 30, 2014, are as follows:

2015	\$ 329,438
2016	329,431
2017	<u>329,484</u>
	988,353
Less amount representing interest	<u>(47,695)</u>
Present value of minimum lease payments	<u><u>\$ 940,658</u></u>

Note 5: Defined Benefit Pension Plan

ITS 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. 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 ITS 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. ITS' 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**

Board of Directors
State of Mississippi
Department of Information Technology Services
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 funds selected for audit of the State of Mississippi Information Technology Services (ITS), which are comprised of a balance sheet as of June 30, 2014, and statements of revenues, expenditures and changes in net position and cash flows for the year then ended of the Information Technology Services Fund and a balance sheet as of June 30, 2014 and a statement of revenues, expenditures and changes in fund balance for the year then ended of the MWCC Operating Fund, and the related notes to the basic financial statements, and have issued our report thereon dated January 28, 2015, which contained an *Emphasis of Matter* paragraph regarding the entity reflected in the financial statements.

Internal Control Over Financial Reporting

Management of ITS is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits, we considered ITS' 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 ITS' internal control. Accordingly, we do not express an opinion on the effectiveness of ITS' internal control.

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, such that there is a reasonable possibility that a material misstatement of ITS' financial statements will not be prevented or detected and corrected 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 2014-001 that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ITS' 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 ITS' management in a separate letter dated January 28, 2015.

ITS' Response to Finding

ITS's 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 ITS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLC

Jackson, Mississippi
January 28, 2015

State of Mississippi
Department of Information Technology Services
Schedule of Findings and Responses
Year Ended June 30, 2014

Reference Number	Finding
2014-001	<p><i>Criteria or Specific Requirement</i> – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p><i>Condition</i> – Management has not established procedures to verify that lives assigned to depreciable assets are reasonable and in accordance with the guidelines established by the Mississippi Agency Accounting Policies and Procedures Manual.</p> <p><i>Effect</i> – Potentially misstatements in the financial statements could occur and not be prevented or detected by ITS’ internal control structure.</p> <p><i>Cause</i> – ITS has not established procedures to review lives assigned to depreciable assets.</p> <p><i>Recommendation</i> – Management should establish procedures to verify that lives assigned to depreciable assets are reasonable and in accordance with the guidelines established by the Mississippi Agency Accounting Policies and Procedures Manual.</p> <p><i>View of Responsible Officials and Planned Corrective Actions</i> – ITS will establish procedures to verify that lives assigned to depreciable assets are reasonable and in accordance with the guidelines established by the Mississippi Agency Accounting Policies and Procedures Manual.</p>