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Mississippi Department of Employment Security
Special Revenue Fund – Fund 3671
Auditor's Reports and Financial Statements
June 30, 2014



Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

June 30, 2014

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Independent Auditor's Report

Executive Director Mark Henry
Mississippi Department of Employment Security
Jackson, Mississippi

Report on Financial Statements

We have audited the accompanying basic financial statements of the Special Revenue Fund – Fund 3671 of the Mississippi Department of Employment Security (MDES), which are comprised of a balance sheet as of June 30, 2014, and a statement of revenues, expenditures and changes in fund balance and the related notes to the financial statements for the year ended June 30, 2014, 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 an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 MDES' 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 MDES' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Special Revenue Fund – Fund 3671 of MDES as of June 30, 2014, and the changes in its financial position for the year then ended in accordance 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 Special Revenue Fund – Fund 3671 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2014, or the changes in its financial position for the year then ended in accordance 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 27, 2015, on our consideration of MDES' 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 MDES' internal control over financial reporting and compliance.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Balance Sheet

June 30, 2014

Assets

Cash with State Treasury	\$ 3,683,114
Cash	5,000
Receivables	821,280
Due from other governments	6,976,672
Due from other state funds	<u>1,392,497</u>
Total assets	<u><u>\$ 12,878,563</u></u>

Liabilities and Fund Balance

Liabilities

Warrants payable	\$ 429,409
Accounts payable and accrued expenditures	3,014,982
Due to other governments	173,962
Due to other state funds	19,014
Due to subrecipients	2,438,838
Unearned revenue	<u>195,159</u>
Total liabilities	<u>6,271,364</u>

Fund Balance

Restricted for unemployment insurance program	<u>6,607,199</u>
Total liabilities and fund balance	<u><u>\$ 12,878,563</u></u>

Mississippi Department of Employment Security
Special Revenue Fund – Fund 3671
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2014

Revenues

Federal government	\$ 68,415,939
Contractual services	10,478,359
Charges for sales and services	378,828
Transfers in from other state funds	644,774
Other	<u>5,096</u>

Total revenues	<u>79,922,996</u>
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Expenditures

Current	
Health and social services	79,542,049
Capital outlay	851,201
Transfers out to other state funds	<u>218,725</u>

Total expenditures	<u>80,611,975</u>
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Net Decrease in Fund Balance	(688,979)
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Fund Balance - Beginning of Year	<u>7,296,178</u>
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Fund Balance - End of Year	<u><u>\$ 6,607,199</u></u>
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Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Mississippi Department of Employment Security (MDES) is a federally-funded state agency. The programs of MDES, under the direction of the governor of Mississippi, report to the federal government.

The U.S. Congress appropriates all funds expended to administer employment security programs. Funding for the employment service labor exchange functions comes from the federal Wagner-Peyser Act. Funding for the Unemployment Insurance Program comes from the Federal Unemployment Tax Act (FUTA) on employers for administrative funds and from Mississippi employer taxes and the federal government for benefit funds. All federal funds received by MDES are cleared through the state treasury, and authority to expend these funds is granted by the state legislature.

The primary responsibility of MDES is to promote employment security in the State of Mississippi by administering federally assisted programs that provide employment, placement and training services through local public employment offices within the state.

In addition, MDES is responsible for administering the State of Mississippi Unemployment Insurance Program. The program, funded by employer tax contributions, provides unemployment benefits to eligible claimants in accordance with the Employment Security Law of 1941, as amended. MDES is also responsible for the development and assimilation of labor market information.

MDES' Special Revenue Fund 3671 (Fund 3671) is a special revenue fund that accounts for monies received from the federal government for all programs MDES administers.

Basis of Presentation

The accounting and reporting policies of MDES conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board (GASB).

MDES' Fund 3671 is a governmental special revenue fund and will be presented as such in these financial statements and in the fund financial statements of the State of Mississippi Comprehensive Annual Financial Report (CAFR). Since the capital assets and related debt will be properly disclosed in the government-wide financial statements of the State of Mississippi CAFR, the financial statements presented in this report will only include the fund financial statements which are prepared on the modified accrual basis of accounting.

These financial statements present only Fund 3671 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2014, or the changes in its financial position for the

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2014

year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

The financial activities of MDES are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. MDES uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Fund financial statements provide information about MDES' funds. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities. MDES considers revenues to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent to which they have matured and are recorded in the fund only for separations or transfers that occur before year-end. General capital asset acquisitions are reported as expenditures in governmental funds.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. When both restricted and unrestricted resources are available for use, it is MDES' policy to use restricted resources first and then unrestricted resources as they are needed.

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 and expenditures during the reporting period. Actual results could differ from those estimates.

Cash with State Treasury and Cash

Cash includes cash on hand and deposits with the State Treasury.

Accounts Receivable

Accounts receivable represent amounts due to MDES from various entities. MDES provides an allowance for uncollectible accounts, when necessary, based upon a review of outstanding

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2014

receivables, historical collection information and existing economic conditions. As of June 30, 2014, no allowance was considered necessary.

Risk Management

MDES is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. MDES has various insurance policies to cover its potential liability risk area. The type of coverage and the liability limits vary with each risk area. Settled claims have not exceeded this coverage in the past three fiscal years.

Activity with Other State Funds

Transactions for services rendered by one state fund, including other MDES funds, to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one state fund, including other MDES funds, for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers to (from) other state funds represent flows of assets between funds without equivalent flows of assets in return and without a requirement for payment.

Balances with Other State Funds

Fund 3671 is only a part of MDES. Balances with other state funds, including other MDES funds, have not been eliminated from the balance sheet. Amounts due to and due from other funds represent billings between funds. Transfers between funds are primarily used to move revenues from funds that are required to collect them, to funds required to expend them and to transfer revenues collected in other funds to Fund 3671 in accordance with budgetary authorizations.

Unearned Revenues

Unearned revenues are recognized when revenues are received prior to meeting eligibility requirements.

Fund Balance

The difference between fund assets and liabilities is “fund balance” on the financial statements. Fund balances that are legally restricted to a specific use or that are not available for appropriation or expenditure are reported as restricted.

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2014

Federal Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period (within 60 days after year-end). Federal reimbursement type grants are recorded as revenues when the related expenditures are incurred. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Note 2: Deposits

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the State's 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 these 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 (FDIC).

Custodial credit risk is the risk that in the event of a depository failure, the State's deposits may not be returned to it. The Mississippi State Treasurer's Office manages that risk for the State. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the State.

Information regarding the collateralization of deposits held by this pool at June 30, 2014, will be presented in the State of Mississippi CAFR for the year ended June 30, 2014.

At June 30, 2014, none of the fund's deposits were exposed to custodial credit risk.

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2014

Note 3: Transactions with Other State Funds

At June 30, 2014, receivables and payables from other state funds, including other MDES funds, consisted of:

	<u>Receivables</u>	<u>Payables</u>
Governmental funds		
General fund	\$ 666,850	\$ -
Proprietary funds	725,647	-
Component units - universities	-	19,014
	<u>\$ 1,392,497</u>	<u>\$ 19,014</u>

At June 30, 2014, transfers with other state funds, including other MDES funds, consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds		
Nonmajor governmental funds	\$ 644,774	\$ 218,725

Note 4: Defined Benefit Pension Plan

MDES contributes to the Public Employees' Retirement System of Mississippi (PERS), which is a cost-sharing, multiple-employer defined benefit public employee 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. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling 601.359.3589 or 1.800.444.PERS.

PERS members are required to contribute 9% of their annual covered salary, and MDES is required to contribute at an actuarially determined rate. The contribution rate is 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. MDES and employee contributions to

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2014

PERS for the years ended June 30, 2014, 2013 and 2012, equaled the required contributions and are summarized as follows, rounded to the near thousand:

	<u>MDES</u>	<u>Employee</u>
2014	\$ 3,166,000	\$ 1,805,000
2013	3,199,000	2,012,000
2012	2,927,000	2,106,000

Note 5: Commitments

MDES has entered into several leases for office space. Rent expense associated with these leases totaled approximately \$2,596,000 for the year ended June 30, 2014. Future minimum lease payments at June 30, 2014, were:

2015	\$ 2,330,330
2016	1,916,826
2017	1,365,526
2018	813,370
2019	292,020
Thereafter	<u>146,010</u>
	<u><u>\$ 6,864,082</u></u>

Note 6: Significant Estimates and Concentrations

Economic Dependency

MDES is economically dependent on grant funds received from the federal government to provide for its overall administration, the payment of certain unemployment benefits and the administration and funding of the Workforce Investment Act and other such programs for the State of Mississippi. During fiscal year 2014, 86% of MDES' Fund 3671 revenues were provided directly by the federal government.

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2014

Note 7: Commitments and Contingencies

Government Grants

MDES is currently participating in numerous grants from various departments and agencies of the federal government. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed. The amount, if any, of expenditures that may be disallowed by the grantors cannot be determined at this time, although MDES expects such amounts, if any, to be immaterial.

**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**

Executive Director Mark Henry
Mississippi Department of Employment Security
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 Special Revenue Fund – Fund 3671 of the Mississippi Department of Employment Security (MDES), which comprise the balance sheet as of June 30, 2014, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 27, 2015, which contained an “emphasis of matter” paragraph regarding the reporting entity.

Internal Control Over Financial Reporting

Management of MDES is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered MDES' internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDES' internal control. Accordingly, we do not express an opinion on the effectiveness of MDES' 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 MDES' 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 was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Compliance and Other Matter

As part of obtaining reasonable assurance about whether MDES' 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 audit 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 noted certain matters that we reported to MDES' management in a separate letter dated January 27, 2015.

Purpose of this Report

The purpose of this communication 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 MDES' internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security
Special Revenue Fund – Fund 3678
Auditor's Reports and Financial Statements
June 30, 2014



Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

June 30, 2014

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Independent Auditor's Report

Executive Director Mark Henry
Mississippi Department of Employment Security
Jackson, Mississippi

Report on Financial Statements

We have audited the accompanying basic financial statements of the Special Revenue Fund – Fund 3678 of the Mississippi Department of Employment Security (MDES), which are comprised of a balance sheet as of June 30, 2014, and a statement of revenues, expenditures and changes in fund balance and the related notes to the basic financial statements for the year ended June 30, 2014, 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 an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 MDES' 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 MDES' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Special Revenue Fund – Fund 3678 of MDES as of June 30, 2014, and the changes in its financial position for the year then ended in accordance 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 Special Revenue Fund – Fund 3678 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2014, or the changes in its financial position for the year then ended in accordance 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 27, 2015, on our consideration of MDES' 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 MDES' internal control over financial reporting and compliance.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Balance Sheet

June 30, 2014

Assets

Cash with State Treasury	\$ 457,607
Cash	7,810,585
Receivables, net	
Accounts	5,700,000
Assessments	<u>423,864</u>
Total assets	<u><u>\$ 14,392,056</u></u>

Liabilities and Fund Balance

Liabilities

Due to other state funds	<u>\$ 13,933,093</u>
Total liabilities	<u>13,933,093</u>

Fund Balance

Restricted for workforce enhancement training	<u>458,963</u>
Total liabilities and fund balance	<u><u>\$ 14,392,056</u></u>

Mississippi Department of Employment Security
Special Revenue Fund – Fund 3678
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2014

Revenues	
Assessments	\$ 22,224,262
Other	<u>30,664</u>
Total revenues	<u>22,254,926</u>
Expenditures	
Transfers to other state funds	<u>(22,286,068)</u>
Net Decrease in Fund Balance	(31,142)
Fund Balance - Beginning of Year	<u>490,105</u>
Fund Balance - End of Year	<u><u>\$ 458,963</u></u>

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Notes to Financial Statements

June 30, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Mississippi Department of Employment Security (MDES) is a federally-funded state agency. The programs of MDES, under the direction of the governor of Mississippi, report to the federal government.

The U.S. Congress appropriates all funds expended to administer employment security programs. Funding for the employment service labor exchange functions comes from the federal Wagner-Peyser Act. Funding for the Unemployment Insurance Program comes from the Federal Unemployment Tax Act (FUTA) on employers for administrative funds and from Mississippi employer taxes and the federal government for benefit funds. All federal funds received by MDES are cleared through the state treasury, and authority to expend these funds is granted by the state legislature.

The primary responsibility of MDES is to promote employment security in the State of Mississippi by administering federally assisted programs that provide employment, placement and training services through local public employment offices within the state.

In addition, MDES is responsible for administering the State of Mississippi Unemployment Insurance Program. The program, funded by employer tax contributions, provides unemployment benefits to eligible claimants in accordance with the Employment Security Law of 1941, as amended. MDES is also responsible for the development and assimilation of labor market information.

MDES' Workforce Enhancement Training Fund – Fund 3678 (Fund 3678) is a special revenue fund that accounts for payment of monies to the Mississippi Community College Board or the State Workforce Investment Board. Through the Workforce Enhancement Fund, community colleges partner with businesses to design and implement specialized short-term training programs to teach skills employees need to be productive in their jobs. Funds are provided through Mississippi employer tax assessments.

Basis of Presentation

The accounting and reporting policies of MDES conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board (GASB).

MDES' Fund 3678 is a governmental special revenue fund and will be presented as such in these financial statements and in the fund financial statements of the State of Mississippi Comprehensive Annual Financial Report (CAFR). Since the capital assets and related debt will be properly disclosed in the government-wide financial statements of the State of Mississippi CAFR, the

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Notes to Financial Statements

June 30, 2014

financial statements presented in this report will only include the fund financial statements which are prepared on the modified accrual basis of accounting.

These financial statements present only Fund 3678 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2014, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

The financial activities of MDES are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. MDES uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Fund financial statements provide information about MDES' funds. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities. MDES considers revenues to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent to which they have matured and are recorded in the fund only for separations or transfers that occur before year-end. General capital asset acquisitions are reported as expenditures in governmental funds.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. When both restricted and unrestricted resources are available for use, it is MDES' policy to use restricted resources first and then unrestricted resources as they are needed.

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 and expenditures during the reporting period. Actual results could differ from those estimates.

Cash with State Treasury and Cash

Cash includes cash on hand and deposits with the State Treasury.

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Notes to Financial Statements

June 30, 2014

Accounts Receivable

MDES reports accounts receivable at net realizable amounts from employers. MDES provides an allowance for uncollectible accounts, when necessary, based upon a review of outstanding receivables, historical collection information and existing economic conditions. As of June 30, 2014, the amount of the allowance was approximately \$347,000.

Risk Management

MDES is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. MDES has various insurance policies to cover its potential liability risk area. The type of coverage and the liability limits vary with each risk area. Settled claims have not exceeded this coverage in the past three fiscal years.

Activity with Other State Funds

Transactions for services rendered by one state fund, including other MDES funds, to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one state fund, including other MDES funds, for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers to (from) other state funds represent flows of assets between funds without equivalent flows of assets in return and without a requirement for payment.

Balances with Other State Funds

Fund 3678 is only a part of MDES. Balances with other state funds, including other MDES funds, have not been eliminated from the balance sheet. Amounts due to and due from other funds represent billings between funds. Transfers between funds are primarily used to move revenues from funds that are required to collect them, to funds required to expend them and to transfer revenues collected in other funds to Fund 3678 in accordance with budgetary authorizations.

Fund Balance

The difference between fund assets and liabilities is “fund balance” on the financial statements. Fund balances that are legally restricted to a specific use or that are not available for appropriation or expenditure are reported as restricted.

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Notes to Financial Statements

June 30, 2014

Note 2: Deposits

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the State's 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 these 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 (FDIC).

Custodial credit risk is the risk that in the event of a depository failure, the State's deposits may not be returned to it. The Mississippi State Treasurer's Office manages that risk for the State. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the State.

Information regarding the collateralization of deposits held by this pool at June 30, 2014, will be presented in the State of Mississippi CAFR for the year ended June 30, 2014.

At June 30, 2014, none of the fund's deposits were exposed to custodial credit risk.

Note 3: Transactions with Other State Funds

At June 30, 2014, payables to other state funds, including other MDES funds, consisted of:

Governmental funds	
General fund	\$ 13,523,108
Proprietary funds	409,985
	<hr/>
	\$ 13,933,093
	<hr/> <hr/>

At June 30, 2014, transfers with other state funds, consisted of:

	<u>Transfers Out</u>
Governmental funds	
Nonmajor governmental funds	\$ 22,286,068
	<hr/> <hr/>

**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**

Executive Director Mark Henry
Mississippi Department of Employment Security
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 financial statements of the Special Revenue Fund – Fund 3678 of the Mississippi Department of Employment Security (MDES), which comprise the balance sheet as of June 30, 2014, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 27, 2015, which contained an “emphasis of matter” paragraph regarding the reporting entity.

Internal Control Over Financial Reporting

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

Management's Response to Findings

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

We also noted certain matters that we reported to MDES' management in a separate letter dated January 27, 2015.

Purpose of Report

The purpose of this communication 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 MDES' internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security
Special Revenue Fund – Fund 3678
Schedule of Findings and Responses
Year Ended June 30, 2014

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
2014-001	<p>Criteria - Management is responsible for designing and maintaining effective internal controls over financial reporting to provide reasonable assurance that financial statements are free from material misstatement.</p> <p>Condition - Fund 3678's financial statements required adjusting journal entries for proper financial statement presentation of revenues, expenditures and fund balance.</p> <p>Cause - MDES' process for accounting for the activities of this special revenue fund did not appropriately consider the nature and timing of the activity of the fund.</p> <p>Effect - Potentially material misstatements in the financial statements of this special revenue fund could occur and not be prevented or detected in a timely manner.</p> <p>Recommendation - We recommend MDES strengthen controls over the review of activity and fund balance to ensure the recorded activity is consistent with the overall nature of the activities of this special revenue fund.</p> <p>View of Responsible Officials and Planned Corrective Actions - MDES accepts this finding and agrees that the controls need to be strengthened in relation to preparing and reviewing the adjusting entries for the fund. This was simply a presentation and timing issue in the way the activity was recorded. All funds were remitted in a timely fashion in accordance with MDES policy. New procedures will be implemented to review activity to ensure that fund balance and changes in fund balance are consistent with the nature of the activities of this special revenue fund. MDES is committed to continuous improvement of its internal control structure.</p>

Mississippi Department of Employment Security
Unemployment Compensation Fund – Fund 8191
Auditor's Reports and Financial Statements
June 30, 2014



Mississippi Department of Employment Security
Unemployment Compensation Fund – Fund 8191
June 30, 2014

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Independent Auditor's Report

Executive Director Mark Henry
Mississippi Department of Employment Security
Jackson, Mississippi

Report on Financial Statements

We have audited the accompanying basic financial statements of the Unemployment Compensation Fund – Fund 8191 of the Mississippi Department of Employment Security (MDES), which are comprised of a statement of net position as of June 30, 2014, and statements of revenues, expenses and changes in net position and cash flows and the related notes to the financial statements as of and for the year ended June 30, 2014, 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 an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 MDES' 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 MDES' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Unemployment Compensation Fund – Fund 8191 of MDES as of June 30, 2014, and the changes in its financial position and cash flows for the year then ended in accordance 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 Unemployment Compensation Fund – Fund 8191 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2014, or the changes in its financial position or, where applicable, cash flows for the year then ended in accordance 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 27, 2015, on our consideration of MDES' 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 MDES' internal control over financial reporting and compliance.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Statement of Net Position

June 30, 2014

Assets

Current Assets

Cash and cash equivalents	\$ 558,367,633
Receivables, net	
Accounts	18,092,582
Assessments	42,889,743
Due from other governments	553,566
Due from other state funds	<u>832,290</u>
Total current assets	<u>\$ 620,735,814</u>

Liabilities and Net Position

Current Liabilities

Accounts payable and accrued liabilities	\$ 115,099
Due to other governments	10,317,878
Due to other state funds	1,384,923
Claims and benefits payable	<u>6,536,773</u>
Total current liabilities	<u>18,354,673</u>

Net Position

Restricted for unemployment compensation benefits	<u>602,381,141</u>
Total liabilities and net position	<u>\$ 620,735,814</u>

Mississippi Department of Employment Security
Unemployment Compensation Fund – Fund 8191
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

Operating Revenues	
Assessments	\$ 158,740,904
Federal agencies	<u>53,051,671</u>
Total operating revenues	<u>211,792,575</u>
Operating Expenses	
Claims and benefits	<u>200,095,092</u>
Operating Income	11,697,483
Nonoperating Revenues	
Investment income	<u>12,423,996</u>
Net Increase in Net Position	24,121,479
Net Position - Beginning of Year	<u>578,259,662</u>
Net Position - End of Year	<u><u>\$ 602,381,141</u></u>

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Statement of Cash Flows

Year Ended June 30, 2014

Operating Activities

Cash receipts from federal agencies	\$ 56,045,938
Cash receipts from assessments	174,266,313
Cash paid for claims and benefits	<u>(206,394,641)</u>
Net cash provided by operating activities	<u>23,917,610</u>

Investing Activities

Investment income	<u>12,423,996</u>
Net cash provided by investing activities	<u>12,423,996</u>

Increase in Cash and Cash Equivalents 36,341,606

Cash and Cash Equivalents, Beginning of Year 522,026,027

Cash and Cash Equivalents, End of Year \$ 558,367,633

Reconciliation of Operating Income to Net Cash Provided by

Operating Activities

Operating income	\$ 11,697,483
Changes in assets and liabilities	
Receivables	18,563,826
Claims, benefits and accounts payable	(6,299,549)
Unearned revenue	<u>(44,150)</u>
Net cash provided by operating activities	<u><u>\$ 23,917,610</u></u>

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Notes to Financial Statements

June 30, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Mississippi Department of Employment Security (MDES) is a federally-funded state agency. The programs of MDES, under the direction of the governor of Mississippi, report to the federal government.

The U.S. Congress appropriates all funds expended to administer employment security programs. Funding for the employment service labor exchange functions comes from the federal Wagner-Peyser Act. Funding for the Unemployment Insurance Program comes from the Federal Unemployment Tax Act (FUTA) on employers for administrative funds and from Mississippi employer taxes and the federal government for benefit funds. All federal funds received by MDES are cleared through the state treasury, and authority to expend these funds is granted by the state legislature.

The primary responsibility of MDES is to promote employment security in the State of Mississippi by administering federally assisted programs that provide employment, placement and training services through local public employment offices within the state.

In addition, MDES is responsible for administering the State of Mississippi Unemployment Insurance Program. The program, funded by employer tax contributions, provides unemployment benefits to eligible claimants in accordance with the Employment Security Law of 1941, as amended. MDES is also responsible for the development and assimilation of labor market information.

MDES' Unemployment Compensation Fund – Fund 8191 (Fund 8191) accounts for the collection of unemployment insurance taxes from employers and the payment of unemployment benefits to eligible claimants. Funds are also provided by the federal government and interest income.

Basis of Presentation

The accounting and reporting policies of MDES conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board (GASB).

The financial statements presented are those required for a business-type activity presentation and are prepared using the economic measurement focus and the accrual basis of accounting. MDES' Fund 8191 is a proprietary fund and will be presented as such in these financial statements and in the financial statements of the State of Mississippi Comprehensive Annual Financial Report (CAFR).

These financial statements present only Fund 8191 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2014, the changes in its financial position or, where

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Notes to Financial Statements

June 30, 2014

applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

The financial activities of MDES are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. MDES uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Fund financial statements provide information about MDES' funds. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses from these proprietary funds include benefits and aid payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

MDES considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014, cash and cash equivalents consisted of demand deposits and U.S. Treasury deposits.

Accounts Receivable

MDES reports accounts receivable related to the unemployment insurance program at net realizable amounts from employers, program participants and other governmental entities. MDES provides an allowance for uncollectible accounts based upon a review of outstanding receivables,

Mississippi Department of Employment Security
Unemployment Compensation Fund – Fund 8191
Notes to Financial Statements
June 30, 2014

historical collection information and existing economic conditions. As of June 30, 2014, the amount of the allowance was approximately \$75,900,000.

Risk Management

MDES is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. MDES has various insurance policies to cover its potential liability risk area. The type of coverage and the liability limits vary with each risk area. Settled claims have not exceeded this coverage in the past three fiscal years.

Activity with Other State Funds

Transactions for services rendered by one state fund, including other MDES funds, to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one state fund, including other MDES funds, for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund.

Balances with Other State Funds

Fund 8191 is only a part of MDES. Balances with other state funds, including other MDES funds, have not been eliminated from the statement of net position. Amounts due to and due from other funds represent billings between funds.

Claims and Benefits Payable

A liability for an insurance claim is established if information indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. Claims and benefits payable represent amounts incurred prior to the reporting date.

Unearned Revenues

Unearned revenues are recognized when assets are received prior to meeting eligibility requirements.

Net Position

The difference between assets and liabilities is net position. The net position of Fund 8191 is restricted for unemployment compensation benefits.

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Notes to Financial Statements

June 30, 2014

Federal Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period (within 60 days after year-end). Federal reimbursement type grants are recorded as revenues when the related expenses are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. MDES' deposit policy for custodial credit risk requires compliance with the provisions of state law.

Deposits in the "benefit payment account" are governed by Section 71-5-455, Miss. Code Ann. (1972), which provides that MDES shall select the bank within the state to hold the depository funds for the benefit payments account. The deposit security shall be 5% greater than the amounts on deposit in the benefit payment account at any point in time and consists of such securities or surety bonds as are required by law of depositories of state funds, and MDES shall take such action as it may deem necessary to safeguard the custody of such security. In the event of failure of a financial institution, securities pledged by that institution would be liquidated to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Deposits are included in the financial statements as follows:

Carrying value	
Trust fund - U.S. Treasury	\$ 541,890,781
Deposits	<u>16,476,852</u>
	<u><u>\$ 558,367,633</u></u>

U.S. Treasury deposits pay interest based on current rates for short-term government securities.

At June 30, 2014, none of the fund's deposits were exposed to custodial credit risk.

Mississippi Department of Employment Security
Unemployment Compensation Fund – Fund 8191
Notes to Financial Statements
June 30, 2014

Note 3: Transactions and Activity with Other State Funds

At June 30, 2014, receivables and payables from other state funds, including other MDES funds, consisted of:

	<u>Receivables</u>	<u>Payables</u>
Governmental funds		
General fund	\$ 1,908	\$ 1,164,200
Proprietary funds	-	220,723
Internal service funds	587,207	-
Component units - universities	243,175	-
	<u>\$ 832,290</u>	<u>\$ 1,384,923</u>

There were no transfers in or transfers out for the year ended June 30, 2014.

Note 4: Significant Estimates and Concentrations

Economic Dependency

MDES is economically dependent on grant funds received from the federal government to provide for its overall administration, the payment of certain unemployment benefits, the administration and funding of the Workforce Investment Act and other such programs for the State of Mississippi. During fiscal year 2014, 25% of MDES' Fund 8191 revenues were provided directly by the federal government.

Note 5: Commitments and Contingencies

Government Grants

MDES is currently participating in numerous grants from various departments and agencies of the federal government. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed. The amount, if

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Notes to Financial Statements

June 30, 2014

any, of expenditures that may be disallowed by the grantors cannot be determined at this time, although MDES expects such amounts, if any, to be immaterial.

**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**

Executive Director Mark Henry
Mississippi Department of Employment Security
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 Unemployment Compensation Fund – Fund 8191 of the Mississippi Department of Employment Security (MDES), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 27, 2015, which contained an “emphasis of matter” paragraph regarding the reporting entity.

Internal Control Over Financial Reporting

Management of MDES is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered MDES' internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDES' internal control. Accordingly, we do not express an opinion on the effectiveness of MDES' 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 MDES' 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 was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Compliance and Other Matter

As part of obtaining reasonable assurance about whether MDES' 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 audit 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 MDES' management in a separate letter dated January 27, 2015.

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 MDES' internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees Fund – Fund 8194
Auditor's Reports and Financial Statements
June 30, 2014



Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees Fund – Fund 8194
June 30, 2014

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Independent Auditor's Report

Executive Director Mark Henry
Mississippi Department of Employment Security
Jackson, Mississippi

Report on Financial Statements

We have audited the accompanying basic financial statements of the Unemployment Compensation for Federal Employees Fund – Fund 8194 of the Mississippi Department of Employment Security (MDES), which are comprised of a statement of net position as of June 30, 2014 and statements of revenues, expenses and changes in net position and cash flows and notes to the financial statements for the year ended June 30, 2014, 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 an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 MDES' 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 MDES' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Unemployment Compensation for Federal Employees Fund – Fund 8194 of MDES as of June 30, 2014, and the changes in its financial position and cash flows for the year then ended in accordance 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 Unemployment Compensation for Federal Employees Fund – Fund 8194 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2014, or the changes in its financial position or, where applicable, cash flows for the year then ended in accordance 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 27, 2015, on our consideration of MDES' 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 MDES' internal control over financial reporting and compliance.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees Fund – Fund 8194
Statement of Net Position
June 30, 2014

Assets

Current Assets

Due from other state funds	\$ 220,724
	<u> </u>
Total current assets	<u><u>\$ 220,724</u></u>

Liabilities and Net Position

Current Liabilities

Claims, benefits and accounts payable	\$ 53,980
Due to other state funds	180
Unearned revenue	<u>166,564</u>
	<u> </u>
Total current liabilities	<u>220,724</u>

Net Position

Unrestricted	<u>-</u>
	<u> </u>
Total liabilities and net position	<u><u>\$ 220,724</u></u>

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees Fund – Fund 8194
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

Operating Revenues	
Federal agencies	<u>\$ 4,111,203</u>
Operating Expenses	
Claims and benefits	<u>4,111,203</u>
Operating Income	<u>-</u>
Change in Net Position	-
Net Position - Beginning of Year	<u>-</u>
Net Position - End of Year	<u><u>\$ -</u></u>

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees Fund – Fund 8194
Statement of Cash Flows
Year Ended June 30, 2014

Operating Activities

Cash receipts from federal agencies	\$ 4,103,984
Cash payments for claims and benefits	<u>(4,103,984)</u>

Net cash used in operating activities	<u>-</u>
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Change in Cash and Cash Equivalents	-
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Cash, Beginning of Year	<u>-</u>
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Cash, End of Year	<u><u>\$ -</u></u>
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**Reconciliation of Operating Income to Net Cash Used in
Operating Activities**

Operating income	\$ -
Adjustment to reconcile operating income to net cash used in operating activities	
Changes in assets and liabilities	
Due from other state funds	60,715
Claims, benefits and accounts payable	(53,496)
Unearned revenue	<u>(7,219)</u>

Net cash used in operating activities	<u><u>\$ -</u></u>
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Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees Fund – Fund 8194
Notes to Financial Statements
June 30, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Mississippi Department of Employment Security (MDES) is a federally-funded state agency. The programs of MDES, under the direction of the governor of Mississippi, report to the federal government.

The U.S. Congress appropriates all funds expended to administer employment security programs. Funding for the employment service labor exchange functions comes from the federal Wagner-Peyser Act. Funding for the Unemployment Insurance Program comes from the Federal Unemployment Tax Act (FUTA) on employers for administrative funds and from Mississippi employer taxes and the federal government for benefit funds. All federal funds received by MDES are cleared through the state treasury, and authority to expend these funds is granted by the state legislature.

The primary responsibility of MDES is to promote employment security in the State of Mississippi by administering federally assisted programs that provide employment, placement and training services through local public employment offices within the state.

In addition, MDES is responsible for administering the State of Mississippi Unemployment Insurance Program. The program, funded by employer tax contributions, provides unemployment benefits to eligible claimants in accordance with the Employment Security Law of 1941, as amended. MDES is also responsible for the development and assimilation of labor market information.

MDES' Unemployment Compensation for Federal Employees Fund – Fund 8194 (Fund 8194) accounts for the payment of unemployment benefits to eligible claimants for the program's unemployment compensation for federal employees and unemployment compensation for ex-servicemen. Funds are provided by the federal government.

Basis of Presentation

The accounting and reporting policies of MDES conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board (GASB).

The financial statements presented are those required for a business-type activity presentation and are prepared using the economic measurement focus and the accrual basis of accounting. MDES' Fund 8194 is a proprietary fund and will be presented as such in these financial statements and in the financial statements of the State of Mississippi Comprehensive Annual Financial Report (CAFR).

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees Fund – Fund 8194
Notes to Financial Statements
June 30, 2014

These financial statements present only Fund 8194 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2014, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

The financial activities of MDES are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. MDES uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Fund financial statements provide information about MDES' funds. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses from these proprietary funds include benefits and aid payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

MDES is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. MDES has various insurance policies to cover its potential liability risk area. The type of coverage and the liability limits vary with each risk area. Settled claims have not exceeded this coverage in the past three fiscal years.

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees Fund – Fund 8194
Notes to Financial Statements
June 30, 2014

Balances and Activity with Other State Funds

Fund 8194 is only a part of MDES. Balances with other state funds, including other MDES funds, have not been eliminated from the statement of net position. Amounts due to and due from other funds represent billings between funds.

Claims and Benefits Payable

A liability for an insurance claim is established if information indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. Claims and benefits payable represent amounts incurred prior to the reporting date.

Unearned Revenues

Unearned revenues are recognized when revenues are received prior to meeting eligibility requirements.

Federal Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when all eligibility requirements are met, including any time requirement, and the amount is received during the period or within the availability period (within 60 days after year-end). Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Note 2: Transactions with Other State Funds

At June 30, 2014, receivables and payables with other state funds, including other MDES funds, consisted of:

	Receivables	Payables
Governmental funds		
General fund	\$ -	\$ 180
Proprietary funds		
Unemployment compensation	220,724	-
	<u>\$ 220,724</u>	<u>\$ 180</u>

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees Fund – Fund 8194
Notes to Financial Statements
June 30, 2014

Note 3: Significant Estimates and Concentrations

Economic Dependency

MDES is economically dependent on grant funds received from the federal government to provide for its overall administration, the payment of certain unemployment benefits, the administration and funding of the Workforce Investment Act and other such programs for the State of Mississippi. During fiscal year 2014, 100% of MDES' Fund 8194 revenues were provided directly by the federal government.

Note 4: Commitments and Contingencies

Government Grants

MDES is currently participating in numerous grants from various departments and agencies of the federal government. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed. The amount, if any, of expenditures that may be disallowed by the grantors cannot be determined at this time, although MDES expects such amounts, if any, to be immaterial.

**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**

Executive Director Mark Henry
Mississippi Department of Employment Security
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 Unemployment Compensation for Federal Employees Fund – Fund 8194 of the Mississippi Department of Employment Security (MDES), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 27, 2015, which contained an “emphasis of matter” paragraph regarding the reporting entity.

Internal Control Over Financial Reporting

Management of MDES is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered MDES' internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDES' internal control. Accordingly, we do not express an opinion on the effectiveness of MDES' 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 MDES' 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 was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Compliance and Other Matter

As part of obtaining reasonable assurance about whether MDES' 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 audit 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 MDES' management in a separate letter dated January 27, 2015.

Purpose of Report

The purpose of this communication 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 MDES' internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security

Schedule of Changes in Accrued Compensated Absences

June 30, 2014



Mississippi Department of Employment Security
Schedule of Changes in Accrued Compensated Absences
June 30, 2014

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Independent Auditor's Report

Executive Director Mark Henry
Mississippi Department of Employment Security
Jackson, Mississippi

Report on the Schedule

We have audited the accompanying schedule of changes in accrued compensated absences of the Mississippi Department of Employment Security (MDES) for the year ended June 30, 2014, and the related notes to the schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the schedule of changes in accrued compensated absences 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 the schedule of changes in accrued compensated absences that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the schedule of changes in accrued compensated absences based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the schedule of changes in accrued compensated absences is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of changes in accrued compensated absences. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of changes in accrued compensated absences, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MDES' preparation and fair presentation of the schedule of changes in accrued compensated absences 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 MDES' 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 schedule of changes in accrued compensated absences.

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

Opinion

In our opinion, the schedule of changes in accrued compensated absences referred to above presents fairly, in all material respects, the changes in accrued compensated absences of MDES as of June 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 27, 2015, on our consideration of MDES' internal control over the reporting of the schedule of changes in accrued compensated absences and on 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 the reporting of the schedule of changes in accrued compensated absences and compliance and the results of that testing, and not to provide an opinion on internal control over the reporting of the schedule of changes in accrued compensated absences or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering MDES' internal control over the reporting of the schedule of changes in accrued compensated absences and compliance.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security
Schedule of Changes in Accrued Compensated Absences
Year Ended June 30, 2014

Accrued Compensated Absences

Beginning balance	\$ 2,226,522
Additions	888,819
Deletions	<u>(1,115,809)</u>
Ending balance	<u><u>\$ 1,999,532</u></u>

Mississippi Department of Employment Security
Note to Schedule of Changes in Accrued Compensated Absences
Year Ended June 30, 2014

Note 1: Basis of Presentation

The schedule of changes in accrued compensated absences of MDES is presented on the accrual basis of accounting.

Note 2: Accrued Compensated Absences

State law authorizes payment for a maximum of 30 days accrued personal leave in a lump sum upon termination of employment. No payment is authorized for accrued major medical leave unless employees present medical evidence that their physical condition is such that they can no longer work in a capacity of state government. The state's obligation for accumulated unpaid personal leave, up to the maximum of 30 days per employee, is reported as "accrued compensated absences" in the accompanying schedule of changes in accrued compensated absences. The state uses the last-in, first-out method of recognizing use of compensated absences. The reported liability applicable to all funds includes the related fringe benefits that the state, as employer, is required to pay when the accrued compensated absences are liquidated. Accumulated unpaid major medical leave is not accrued, because it is not probable that the compensation will be paid in a lump sum other than in the event of severe illness.

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

Executive Director Mark Henry
Mississippi Department of Employment Security
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 schedule of changes in accrued compensated absences for the Mississippi Department of Employment Security (MDES) for the year ended June 30, 2014, and have issued our report thereon dated January 27, 2015.

Internal Control Over Financial Reporting

Management of MDES is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered MDES' internal control to determine our auditing procedures for the purpose of expressing our opinion on the schedule of changes in accrued compensated absences for MDES, but not for the purpose of expressing an opinion on the effectiveness of MDES' internal control. Accordingly, we do not express an opinion on the effectiveness of MDES' 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 MDES' 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Compliance

As part of obtaining reasonable assurance about whether MDES' schedule of changes in accrued compensated absences is 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 schedule amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit, 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*.

Purpose of this Report

This 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 MDES' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security

Compliance Audit Report on the U.S. Department of Labor –
Unemployment Insurance Program and Workforce Investment Act Cluster

June 30, 2014



Mississippi Department of Employment Security

June 30, 2014

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Independent Auditor's Report on the Schedule of Expenditures of Federal Awards - Programs Audited

Executive Director Mark Henry
Mississippi Department of Employment Security
Jackson, Mississippi

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying schedule of expenditures of federal awards (the Schedule) for the U.S. Department of Labor – Unemployment Insurance Program and Workforce Investment Act Cluster of the Mississippi Department of Employment Security (MDES) [Programs Audited] for the year ended June 30, 2014.

Management's Responsibility for the Schedule of Expenditures of Federal Awards

Management is responsible for the preparation and fair presentation of the schedule of expenditures of federal awards 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 the schedule that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit 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, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is 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 opinion.

Opinion

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the Programs Audited for the year ended June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015, on our consideration of MDES' 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* considering MDES' internal control over financial reporting and compliance.

BKD, LLC

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security
Schedule of Expenditures of Federal Awards – Programs Audited
Year Ended June 30, 2014

Federal Agency/ Pass-through Entity Program Title	CFDA Number	Amount
Fund 3671		
U.S. Department of Labor		
Unemployment Insurance (Administration)	17.225	\$ 32,318,646
Total Unemployment Insurance (Administration)		<u>32,318,646</u>
Workforce Investment Act (WIA) Cluster		
Workforce Investment Act - Administration	17.258/17.259/17.278	1,335,613
WIA Adult Program	17.258	6,678,447
WIA Youth Activities	17.259	8,397,516
WIA Dislocated Workers	17.278	<u>7,989,807</u>
Total WIA Cluster		<u>24,401,383</u>
Total Expenditures of Direct Federal Awards		<u>56,720,029</u>
U.S. Department of Labor		
Passed through from South Delta Planning and Development District, Inc.		
Workforce Investment Act Cluster	17.258/17.259/17.278	2,042,817
Passed through from Mississippi Partnership (Three Rivers Planning and Development District)		
Workforce Investment Act Cluster	17.258/17.259/17.278	1,800,773
Passed through from South Central Mississippi Works (Central Mississippi Planning and Development District, Inc.)		
Workforce Investment Act Cluster	17.258/17.259/17.278	3,148,872
Passed through from Twin Districts (South Mississippi Planning and Development District)		
Workforce Investment Act Cluster	17.258/17.259/17.278	<u>2,837,661</u>
Total Expenditures of Pass-through Federal Awards		<u>9,830,123</u>
Total Federal Awards Expended - Fund 3671		<u><u>\$ 66,550,152</u></u>

Mississippi Department of Employment Security
Schedule of Expenditures of Federal Awards – Programs Audited (Continued)
Year Ended June 30, 2014

Federal Agency/ Pass-through Entity Program Title	CFDA Number	Amount
Fund 8191		
U.S. Department of Labor		
Unemployment Insurance	17.225	\$ 200,094,967
ARRA - Unemployment Insurance	17.225	<u>125</u>
Total Federal Awards Expended - Fund 8191		<u>\$ 200,095,092</u>
Fund 8194		
U.S. Department of Labor		
Unemployment Insurance	17.225	<u>\$ 4,103,987</u>
Total Federal Awards Expended - Fund 8194		<u>\$ 4,103,987</u>
Overall Total Federal Awards Expended - Programs Audited		<u>\$ 270,749,231</u>

Mississippi Department of Employment Security
Notes to Schedule of Expenditures of Federal Awards – Programs Audited
Year Ended June 30, 2014

Notes to Schedule

1. This schedule includes the federal awards activity of the U.S. Department of Labor – Unemployment Insurance Program and Workforce Investment Act Cluster of the Mississippi Department of Employment Security (MDES) [Programs Audited] and is presented on the accrual basis of accounting. The Programs Audited information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. This schedule is not intended to present all of the federal awards activity of MDES or the State of Mississippi. The State's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, are included in the Statewide Single Audit Report issued under separate cover.
3. Of the federal expenditures presented in this schedule, MDES provided federal awards to subrecipients as follows:

Program	CFDA Number	Amount Provided
WIA Adult Program	17.258	\$ 6,678,447
WIA Youth Activities	17.259	8,397,516
WIA Dislocated Workers	17.278	<u>7,989,807</u>
		<u><u>\$ 23,065,770</u></u>

4. The unemployment compensation system is a unique federal-state partnership, founded upon federal law but implemented through state law. Expenditures reported for the Unemployment Insurance Program (CFDA No. 17.225) include unemployment benefits from the State Unemployment Compensation Fund totaling \$147,043,421.

**Independent Auditor's Report on Compliance with
Requirements that Could Have a Direct and Material Effect
on Each Program Audited and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Executive Director Mark Henry
Mississippi Department of Employment Security
Jackson, Mississippi

**Report on Compliance for the U.S. Department of Labor – Unemployment Insurance Program and
Workforce Investment Act Cluster**

We have audited the compliance of the Mississippi Department of Employment Security (MDES) with the types of compliance requirements described in OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the U.S. Department of Labor – Unemployment Insurance Program and Workforce Investment Act Cluster [Programs Audited] for the year ended June 30, 2014.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Programs Audited is the responsibility of MDES' management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MDES' Programs Audited based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Programs Audited occurred. An audit includes examining, on a test basis, evidence about MDES' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Programs Audited. Our audit does not provide a legal determination on MDES' compliance with those requirements.

Unmodified Opinion on U.S. Department of Labor – Unemployment Insurance Program and Workforce Investment Act Cluster [Programs Audited]

In our opinion, MDES complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its U.S. Department of Labor – Unemployment Insurance Program and Workforce Investment Act Cluster [Programs Audited] for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of MDES is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MDES' internal control over compliance with the requirements that could have a direct and material effect on the Programs Audited to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MDES' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
January 27, 2015

Mississippi Department of Employment Security
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Summary of Auditor's Results

1. The opinion(s) expressed in the independent auditor's report on the financial statements of Funds 3671, 8191 and 8194 were:

☒ Unmodified ☐ Modified ☐ Adverse ☐ Disclaimed

2. The independent auditor's report on internal control over financial reporting described:

Significant deficiency(ies)? ☐ Yes ☒ None reported

Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance for the Programs Audited disclosed:

Significant deficiency(ies)? ☐ Yes ☒ None reported

Material weakness(es)? ☐ Yes ☒ No

5. The opinions expressed in the independent auditor's report on compliance for the Programs Audited were:

Workforce Investment Act Cluster

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

Unemployment Insurance Program

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133.

☐ Yes ☒ No

Mississippi Department of Employment Security
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014

7. Mississippi Department of Employment Security (MDES) programs audited were:

Cluster/Program	CFDA Number
Unemployment Insurance (ARRA and Non-ARRA)	17.225
Workforce Investment Act Cluster	17.258, 17.259, 17.278

Mississippi Department of Employment Security
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Mississippi Department of Employment Security
Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014

Reference Number	Summary of Finding	Status
2013-001	<p>Criteria: The U.S. Office of Management and Budget (OMB) Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>, dictates entities receiving and expending federal funds under the Workforce Investment Act (WIA) Cluster, CFDA Nos. 17.258, 17.259 and 17.278, are required to perform subrecipient monitoring. The subrecipient compliance requirement includes performing on-site monitoring review of each local area's compliance with the Department of Labor's uniform administrative requirements, as required by WIA Section 184(a)(4). MDES personnel did not perform the required on-site monitoring reviews due to the fact that the subrecipient monitoring position was vacated during the fiscal year and remained unfilled through the end of the fiscal year.</p>	Cleared
2013-002	<p>Criteria: OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> and the Federal Funding Accountability and Transparency Act (FFATA) dictate entities receiving and expending federal funds are required to report first-tier subawards subject to the FFATA on the FFATA Subaward Reporting System (FSRS). This reporting requirement dictates that subaward information and any subsequent modifications should be uploaded to the FSRS website within one month following the date of the award or modification. MDES did not have a process in place to ensure the FFATA reporting as required by OMB Circular A-133 and FFATA was completed; therefore, it was not completed for the fiscal year 2013.</p>	Cleared