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**STATE OF MISSISSIPPI  
DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING LOAN FUND**

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**Audited Financial Statements  
June 30, 2015  
(With Comparative Totals for June 30, 2014)**

State of Mississippi  
Department of Environmental Quality  
Clean Water State Revolving Loan Fund

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# Windham and Lacey, PLLC

*Certified Public Accountants*

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Members:  
American Institute of CPAs  
Mississippi Society of CPAs

## **Independent Auditor's Report**

Commission on Environmental Quality  
Mississippi Department of Environmental Quality

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund (the Fund), as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2015, and the changes in financial position thereof 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 referred to above are intended to present only the financial position and results of operations of the Clean Water State Revolving Loan Fund of the Mississippi Department of Environmental Quality, a department of the State of Mississippi. These statements are not intended to present the financial position and results of operations for the State of Mississippi or the Mississippi Department of Environmental Quality, of which the Clean Water State Revolving Loan Fund is a part.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued a report, dated December 18, 2015, on our consideration of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund's internal control over financial reporting 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 financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting 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 the results of our audit.



Windham and Lacey, PLLC  
December 18, 2015

**STATE OF MISSISSIPPI  
DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING LOAN FUND  
BALANCE SHEET  
JUNE 30, 2015**

ASSETS	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Equity in internal investment pool	\$ 105,535,306	107,214,946
Receivables:		
Interest		75,813
Due from other funds	69,944	
Due from other governments	389,551,630	374,035,832
Due from federal government	<u>581,036</u>	<u>631,384</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>495,737,916</u></b>	<b><u>481,957,975</u></b>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Warrants payable	\$	212,417
Due to other governments	10,873,405	8,122,579
Due to other funds		<u>113,090</u>
<b>TOTAL LIABILITIES</b>	<b><u>10,873,405</u></b>	<b><u>8,448,086</u></b>
 <b>FUND BALANCE</b>		
Restricted for recreation and resources development	<u>484,864,511</u>	<u>473,509,889</u>
<b>TOTAL FUND BALANCE</b>	<b><u>484,864,511</u></b>	<b><u>473,509,889</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>495,737,916</u></b>	<b><u>481,957,975</u></b>

See accompanying Notes to Financial Statements.

**STATE OF MISSISSIPPI  
DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING LOAN FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2015**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
REVENUES		
Interest on loans	\$ 5,137,988	4,763,337
Interest on investments	929,690	1,088,038
Federal programs	7,027,612	21,824,327
Proceeds of bond issues		<u>1,000,000</u>
TOTAL REVENUES	<u>13,095,290</u>	<u>28,675,702</u>
EXPENDITURES		
Subsidies	<u>1,827,417</u>	<u>3,944,206</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>11,267,873</u>	<u>24,731,496</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	7,223,636	4,399,322
Transfers out	<u>(7,136,887)</u>	<u>(5,998,151)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>86,749</u>	<u>(1,598,829)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>11,354,622</u>	<u>23,132,667</u>
FUND BALANCE		
Beginning of year	<u>473,509,889</u>	<u>450,377,222</u>
Restated fund balance - beginning of year	<u>473,509,889</u>	<u>450,377,222</u>
End of year	<u>\$ 484,864,511</u>	<u>473,509,889</u>

See accompanying Notes to Financial Statements.

STATE OF MISSISSIPPI  
Department of Environmental Quality  
Clean Water State Revolving Loan Fund  
Notes to Financial Statements  
June 30, 2015

**1. ORGANIZATION AND NATURE OF OPERATIONS OF THE FUND.**

The Clean Water State Revolving Loan Fund (the Fund) of the Mississippi Department of Environmental Quality (MDEQ) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act). The Act established the State Revolving Fund (SRF) Program to replace the construction grants program and to provide loans at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management projects. Instead of making grants to political subdivisions that pay for a portion of building wastewater treatment facilities, the Fund provides for low interest rate loans to finance the entire cost of qualified projects. The Fund provides a flexible financing source that can be used for a variety of pollution control projects, including non-point source pollution control projects, and developing estuary conservation and management projects. All loan repayments, including interest and principal, must remain in the Fund.

The Fund was funded by the U.S. Environmental Protection Agency (EPA) by a series of grants starting in 1989. In order to receive a grant, states are required to provide an additional 20 percent of the federal capitalization grant as matching funds. As of June 30, 2015, Congress authorized the EPA to award \$320,793,986 in capitalization grants to the State of Mississippi (the State). The State is required to contribute \$64,158,797 in matching funds. In prior years the State was awarded hardship grants totaling \$1,045,000, which required matching contributions of \$52,250. Hardship grants are maintained in the same fund with capitalization grants, with subsidiary records to account for grant balances and transactions separately. Because all hardship grants have been obligated and paid out to grant recipients, there were no hardship grant payments made for the year ended June 30, 2015.

The Fund is administered by the Commission on Environmental Quality (the Commission) acting through the Construction Branch (the Branch) of the Surface Water Division of the Office of Pollution Control of MDEQ. MDEQ's primary activities include the making of loans for water pollution control facilities and the management and coordination of the Fund. The Commission consists of seven members, all of which are appointed by the Governor.

The Fund does not have any full-time employees. The Fund is administered by employees of the Branch. All employee and related costs are recorded in MDEQ's Office of Pollution Control Operating Fund. Operating costs are reimbursed from the avails of a 5% administrative fee collected from each loan. (See Note 6).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.**

The Fund is included in the State's basic financial statements as a General Fund of the State of Mississippi.

***Basis of Accounting***

The Fund presents its financial statements as a General Fund and uses the modified accrual basis of accounting. Revenues are recognized when they are both "measurable and available". Measurable means the amount can be determined. Available means amounts collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related liability is incurred. The Fund applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, as well as applicable statements issued by the Financial Accounting Standards Board.

***Equity in Internal Investment Pool***

Monies of the Fund deposited with the State Treasurer's Office internal investment pool are considered cash and cash equivalents. According to state law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as discussed in Note 3. Therefore, management of the Fund does not have any control over the investment of excess cash.

STATE OF MISSISSIPPI  
Department of Environmental Quality  
Clean Water State Revolving Loan Fund  
Notes to Financial Statements  
June 30, 2015

***Due from Other Governments***

The State operates the Fund as a direct loan program, whereby loans made to political subdivisions are funded by the federal capitalization grant, the state matching amount, loan repayments and interest earnings. Loan funds are disbursed to the political subdivision as they expend funds for the purposes of the loan and request reimbursement from the Fund. Interest is calculated from the original contract completion date, and after the final disbursement has been made, the principal amount identified in the loan agreement is adjusted for the actual amounts disbursed plus interest accrued during the period between the original construction contract completion date and the initiation of the repayment process.

***Fund Balance***

In accordance with Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the governmental fund balance is classified as follows:

Restricted: includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The fund balance in the fund is Restricted for Recreation and Resources Development due to federal grant requirements, bond issuance provisions, and state and federal legislation.

***Comparative Data***

Comparative prior year totals have been presented in the accompanying financial statements to provide an understanding of the change in the Fund's financial condition and operations and are not intended to be a complete presentation of the prior year financial statements in accordance with accounting principles generally accepted in the United States of America.

***Budget Information***

Under the Constitution of the State of Mississippi, money may only be drawn from the Treasury by a legal appropriation. The Fund operations are included in MDEQ's annual budget.

**3. EQUITY IN INTERNAL INVESTMENT POOL.**

All monies of the Fund are deposited with the State Treasurer and are considered to be cash and cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with state laws, and excess cash is invested in the State's cash and short-term investment pool. Details of the investments of the internal investment pool for state agencies can be obtained from the State Treasurer. As of June 30, 2015, the State's total pooled deposits and investments for State Agencies were approximately \$3.6 billion, and the average remaining life of the securities invested was 2.44 years. The earnings for the total special funds pooled investments for the year ended June 30, 2015 were approximately \$3 million.

STATE OF MISSISSIPPI  
 Department of Environmental Quality  
 Clean Water State Revolving Loan Fund  
 Notes to Financial Statements  
 June 30, 2015

Equity in internal investment pool is cash equity with the Treasurer and consists of pooled deposits and investments carried at cost, which approximates fair value. At June 30, 2015, the Fund had approximately \$105.5 million in the Treasurer's internal investment pool. The total deposits and investments of the internal investment pool are categorized according to credit risk in the State of Mississippi's Comprehensive Annual Financial Report. However, the Fund's portion of the internal investment pool cannot be individually categorized because the deposits and investments are pooled with other state agencies.

**4. DUE FROM OTHER GOVERNMENTS AND CREDIT RISK.**

The Fund makes loans to qualified political subdivisions for projects that meet the eligibility requirements of the Act. Loans are financed by capitalization grants, state match, loan repayments and interest earnings. Interest rates on loans vary between 1.75% and 4.5%, and are generally repaid over 20 years starting within one year after the project is completed. Details of loans receivable as of June 30, 2015, are discussed below:

In the event of a default on a loan obligation by a public entity, MDEQ has certain legal remedies available that provide for ultimate collection of amounts due.

*Loans by Category*

Due from other governments at June 30, 2015, is as follows:

	<u>Loans Authorized</u>	<u>Authorized Amount Remaining</u>	<u>Cumulative Repayments</u>	<u>Balance</u>
Completed projects	\$ 622,819,786		307,544,973	315,274,813
Projects in progress	<u>187,176,218</u>	<u>112,899,401</u>		<u>74,276,817</u>
Totals	<u>\$ 809,996,004</u>	<u>112,899,401</u>	<u>307,544,973</u>	389,551,630
Less amount due within one year on completed projects				<u>(25,623,666)</u>
Due from other governments, long-term				<u>\$ 363,927,964</u>

Loans mature at various intervals through June 30, 2035. The scheduled principal payments on loans maturing in subsequent years are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2016	\$ 25,623,666
2017	24,921,720
2018	24,721,421
2019	23,807,554
2020	23,316,860
Thereafter	<u>267,160,409</u>
Total	<u>\$ 389,551,630</u>

STATE OF MISSISSIPPI  
Department of Environmental Quality  
Clean Water State Revolving Loan Fund  
Notes to Financial Statements  
June 30, 2015

As of June 30, 2015, the Fund had made loans to 31 local agencies that, in the aggregate, exceeded \$5,000,000 for each local agency. The outstanding balances of these loans represent approximately 69% of the total loans receivable, as follows:

Local Agency	Authorized Loan Amount	Loan Receivable Balance at June 30, 2015
City of Greenwood	\$ 46,904,072	5,409,228
City of Biloxi	11,210,114	3,132,841
City of Jackson	67,555,309	14,327,131
Desoto County WWA	63,320,829	27,206,856
City of Gulfport	35,695,625	22,097,062
City of McComb	38,072,547	30,976,589
City of Corinth	36,336,683	28,467,960
City of Tupelo	47,239,555	20,198,860
Harrison County WW	18,797,259	3,552,289
City of Clinton	21,606,586	8,496,368
City of Laurel	16,352,929	7,090,971
West Rankin Utility Authority	21,065,594	13,953,495
Southern Regional WW	11,323,026	10,114,103
Jackson County UA	16,102,022	7,583,495
City of Brandon	9,955,021	4,853,313
City of Vicksburg	9,825,639	3,158,309
Hancock County WW	8,849,247	7,741,759
City of Oxford	8,813,809	6,741,642
Horn Lake	7,087,343	2,042,100
City of Cleveland	7,543,552	4,365,650
West Jackson County Utility	14,280,283	3,591,383
City of Pontotoc	6,408,591	3,358,230
City of Moss Point	5,657,673	3,424,137
City of Hattiesburg	5,650,110	790,834
City of Gautier	5,454,626	3,474,980
Pearl River Cty Utility Auth	7,580,556	1,427,810
City of Southaven	12,694,381	3,993,431
City of West Point	9,996,954	8,034,467
City of Meridian	8,411,225	
City of Clarksdale	6,789,000	4,369,317
Madison County WW	5,250,790	3,770,117
Totals	\$ <u>591,830,950</u>	<u>267,744,727</u>

The authorized loan amount includes both completed projects and projects in progress. As of June 30, 2015, cumulative principal repayments on completed projects from the above local agencies total \$153,876,179 and amounts remaining to be disbursed on projects in progress total \$108,769,785.

STATE OF MISSISSIPPI  
 Department of Environmental Quality  
 Clean Water State Revolving Loan Fund  
 Notes to Financial Statements  
 June 30, 2015

**5. GRANT AWARDS.**

The Fund is funded by grants from the EPA authorized by Title VI of the Act, matching funds from the State, loan repayments and interest earnings. All funds drawn are recorded as grant awards from the EPA. As of June 30, 2015, the EPA has awarded capitalization and hardship grants of \$321,838,986 to the State, of which \$304,093,416 has been drawn for loans and administrative expenses.

The following summarizes the capitalization grants awarded, amounts drawn on each grant and balances available for future loans:

Year	Grant Amount	Draws Through 6/30/2014	2015 Draws	Draws Through 6/30/2015	Available 6/30/2015
1989	\$ 15,254,024	15,254,024		15,254,024	
1990	15,780,824	15,780,824		15,780,824	
1991	19,512,358	19,512,358		19,512,358	
1992	17,505,576	17,505,576		17,505,576	
1993	17,316,882	17,316,882		17,316,882	
1994	10,744,965	10,744,965		10,744,965	
1995	11,583,952	11,583,952		11,583,952	
1996	18,185,133	18,185,133		18,185,133	
1997	5,572,572	5,572,572		5,572,572	
1998	12,316,944	12,316,944		12,316,944	
1998					
Hardship	1,045,000	1,045,000		1,045,000	
1999	12,133,044	12,133,044		12,133,044	
2000	12,091,860	12,091,860		12,091,860	
2001	11,984,346	11,984,346		11,984,346	
2002	12,011,076	12,011,076		12,011,076	
2003	11,932,965	11,932,965		11,932,965	
2004	11,940,192	11,940,192		11,940,192	
2005	9,706,600	9,706,600		9,706,600	
2006	7,869,300	7,869,300		7,869,300	
2007	9,708,880	9,708,880		9,708,880	
2008	6,092,700	6,092,700		6,092,700	
2009	6,092,700	6,092,700		6,092,700	
2010	18,357,000	18,357,000		18,357,000	
2011	13,304,000	11,074,136	2,151,665	13,225,801	78,199
2012	9,136,093	8,374,400		8,374,400	761,693
2013	12,028,000	2,828,027	4,926,295	7,754,322	4,273,678
2014	<u>12,632,000</u>				<u>12,632,000</u>
Totals	<u>\$ 321,838,986</u>	<u>297,015,456</u>	7,077,960	<u>304,093,416</u>	17,745,570
Receivable, June 30, 2014			(631,384)		
Receivable, June 30, 2015			<u>581,036</u>		<u>581,036</u>
Grant revenues, modified accrual basis			<u>\$ 7,027,612</u>		
Amount available, modified accrual basis					<u>\$ 17,164,534</u>

STATE OF MISSISSIPPI  
 Department of Environmental Quality  
 Clean Water State Revolving Loan Fund  
 Notes to Financial Statements  
 June 30, 2015

As of June 30, 2014 and 2015, state matching contributions were as follows:

	<u>Contributions through 6/30/2014</u>	<u>Fiscal Year 2015 Contributions</u>	<u>Contributions through 6/30/2015</u>
State of Mississippi	\$ 59,270,775	1,415,589	60,686,364

**6. ADMINISTRATIVE FEES/COSTS.**

In connection with issuing loans to political subdivisions, certain administrative and processing functions are performed by the Construction Branch (the Branch) of the Surface Water Division of the Office of Pollution Control of MDEQ, as discussed in Note 1. To help fund the cost of such functions and MDEQ's indirect costs, a 5% administrative fee is collected from each loan. Until fiscal year 1999, administrative fees were added to the loan principal amount to be repaid by the loan recipient.

However, for all loans made after October 1, 1998, the 5% administrative fee is no longer added to the loan principal to be repaid by the loan recipient. Instead, it is collected through the loan repayment stream. Beginning with the initiation of the repayment process and until such time the total administrative fee is collected, the interest portion of each loan repayment is used to satisfy collection of the administrative fee in lieu of the interest portion. The administrative fees and costs related thereto are recognized on the financial statements of MDEQ's Office of Pollution Control SRF Administrative Fee Fund.

Administrative fees collected for the fiscal year ended June 30, 2015, totaled \$1,312,045 with additional amounts collected for interest totaling \$98,304 for total receipts of \$1,410,349. During that period, \$1,433,054 was expended from available administrative fee funds for administrative costs of the Fund. An additional \$118,248 was expended for administrative costs and of this amount, \$98,540 was drawn in fiscal year 2015 from the federal government.

STATE OF MISSISSIPPI  
Department of Environmental Quality  
Clean Water State Revolving Loan Fund  
Notes to Financial Statements  
June 30, 2015

**7. CONTINGENCIES.**

The Fund is exposed to various risks of loss related to torts, theft of assets, errors or omissions, injuries to State employees while performing Fund business, or acts of God. MDEQ maintains insurance coverage provided by the Mississippi Tort Claims Board for some risk of loss related to the Fund. Since its inception in 1989, there have not been any claims against the Fund.

**8. HURRICANE KATRINA LOAN FORBEARANCE.**

On August 29, 2005, Hurricane Katrina swept through Mississippi causing widespread destruction, including that to water and sewer operations. Some loan fund projects in progress, as well as, future projects included in the Intended Use Plan were impacted. The current portion of Due from Other Governments and loan repayments due for future years may be delayed if sales tax diversions of impacted areas are placed in abeyance for a period of time or if water and sewer collections from impacted areas are insufficient to support loan repayment schedules. The Commission has granted forbearance of loan repayment for up to nine years to those water systems. In addition to a forbearance of loan repayments, the Commission will not accrue interest on those loans during the first two years of the forbearance period, or during the entire forbearance period for loans in Hancock County, consistent with State law. Federal law requires repayment of loans over a 20-year period and as of the date of this report, Congress has extended this repayment period to 21 years for Hancock County, Mississippi. At the end of the forbearance period the loans will be restructured. The ability of these entities to repay these loans within the allotted period is uncertain at this time; thus, the future economic impact is undeterminable.

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**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***

Commission on Environmental Quality  
Mississippi Department of Environmental Quality

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 State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund, as of and for the year ended June 30, 2015, and the related notes to the financial statements and have issued our report thereon dated December 18, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund's internal control to determine the auditing 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 the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A 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.

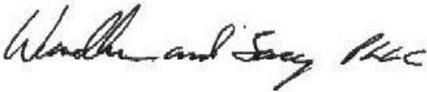
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund's 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 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*.

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Windham and Lacey, PLLC".

Windham and Lacey, PLLC  
December 18, 2015

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**Independent Auditor's Report on Compliance  
with the Requirements Applicable to the  
Environmental Protection Agency's  
Capitalization Grants for Clean Water  
State Revolving Funds  
in Accordance with  
*Government Auditing Standards***

Commission on Environmental Quality  
Mississippi Department of Environmental Quality

We have audited the financial statements of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund (the Fund) as of and for the year ended June 30, 2015, and have issued our report thereon dated December 18, 2015.

We have also audited the Fund's compliance with requirements governing:

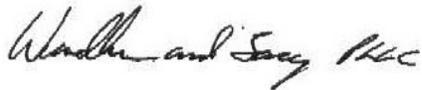
- Activities allowed or unallowed,
- Allowable costs/cost principles,
- Cash management,
- State matching,
- Period of availability of federal funds and binding commitments,
- Procurement, suspension and debarment,
- Program income,
- Reporting,
- Subrecipient monitoring, and
- Special tests and provisions

that are applicable to the Clean Water State Revolving Loan Fund Program for the year ended June 30, 2015. The management of the Clean Water State Revolving Loan Fund Program is responsible for the Fund's compliance with those requirements. Our responsibility is to express an opinion on those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Fund's 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. Our audit does not provide a legal determination of the Fund's compliance with those requirements.

In our opinion, the Fund complied, in all material respects, with the requirements governing activities allowed or unallowed; allowable costs/cost principles; cash management; state matching; period of availability of federal funds and binding commitments; procurement suspension and debarment; program income; reporting; subrecipient monitoring; and special tests and provisions that are applicable to the Clean Water State Revolving Loan Fund Program for the year ended June 30, 2015.

This report is intended for the information and use of management of the Clean Water State Revolving Loan Fund, the Governor, Members of the Legislature and the United States Environmental Protection Agency and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in black ink that reads "Windham and Lacey, PLLC". The signature is written in a cursive, flowing style.

Windham and Lacey, PLLC  
December 18, 2015

**STATE OF MISSISSIPPI  
DEPARTMENT OF ENVIRONMENTAL QUALITY  
HUD/MDA SUB-GRANT FUND 5358900000**

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**Audited Financial Statements  
June 30, 2015**

**STATE OF MISSISSIPPI  
DEPARTMENT OF ENVIRONMENTAL QUALITY  
HUD/MDA SUB-GRANT FUND 5358900000**

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# Windham and Lacey, PLLC

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## INDEPENDENT AUDITOR'S REPORT

Mississippi Department of Environmental Quality  
Jackson, Mississippi

### Report on the Financial Statements

We have audited the accompanying financial statements of the State of Mississippi Department of Environmental Quality HUD/MDA Sub-Grant Fund 5358900000 (the Fund) as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2015, and the changes in financial position thereof 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 referred to above are intended to present only the financial position and results of operations of the HUD/MDA Sub-Grant Fund 5358900000 of the Mississippi Department of Environmental Quality, a department of the State of Mississippi. These statements are not intended to present the financial position and results of operations for the State of Mississippi or the Mississippi Department of Environmental Quality, of which the HUD/MDA Sub-Grant Fund 5358900000 is a part.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued a report, dated January 22, 2016, on our consideration of the State of Mississippi Department of Environmental Quality HUD/MDA Sub-Grant Fund 5358900000's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 internal control over financial reporting 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 the results of our audit.



Windham and Lacey, PLLC  
January 22, 2016

**STATE OF MISSISSIPPI  
DEPARTMENT OF ENVIRONMENTAL QUALITY  
HUD/MDA SUB-GRANT FUND  
BALANCE SHEET  
JUNE 30,2015**

	<u>June 30, 2015</u>
<b>ASSETS</b>	
Receivables:	
Due from other funds	\$ <u>2,485,147</u>
<b>TOTAL ASSETS</b>	<b>\$ <u><u>2,485,147</u></u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Due to other governments	\$ <u>2,485,147</u>
Total Liabilities	<u>2,485,147</u>
Fund Balance:	
Restricted for Recreation and Resources Development	<u>0</u>
Total Fund Balance	<u>0</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u><u>2,485,147</u></u></b>

See accompanying Notes to Financial Statements.

**STATE OF MISSISSIPPI  
DEPARTMENT OF ENVIRONMENTAL QUALITY  
HUD/MDA SUB-GRANT FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2015**

	<u>June 30, 2015</u>
REVENUES:	
Federal Sub-Grants received from funds	\$ <u>11,690,537</u>
TOTAL REVENUES	<u>11,690,537</u>
EXPENDITURES	
Subsidies	<u>11,690,537</u>
TOTAL EXPENDITURES	<u>11,690,537</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>0</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	0
FUND BALANCE:	
Beginning of year	<u>0</u>
End of year	\$ <u><u>0</u></u>

See accompanying Notes to Financial Statements.

**STATE OF MISSISSIPPI  
DEPARTMENT OF ENVIRONMENTAL QUALITY**

**HUD/MDA Sub-Grant Fund 5358900000  
Notes to Financial Statements  
June 30, 2015**

**1. ORGANIZATION AND NATURE OF OPERATIONS OF THE FUND.**

The HUD/MDA Sub-Grant Fund 5358900000 (the Fund) of the Mississippi Department of Environmental Quality (MDEQ) was established to administer the funds for the Mississippi Gulf Region Water and Wastewater Plan (the Plan). The Plan was established by the Governor in response to Hurricane Katrina. The funding is provided by the Department of Housing and Urban Development (HUD) through Disaster Recovery Community Development Block Grants (CDBG) received from the Mississippi Development Authority (MDA).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.**

The Fund is included in the State's basic financial statements as a General Fund of the State of Mississippi.

***Basis of Accounting***

The Fund presents its financial statements as a General Fund and uses the modified accrual basis of accounting. Revenues are recognized when both "measurable and available". Measurable means the amount can be determined. Available means amounts collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related liability is incurred. The Fund applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, as well as applicable statements issued by the Financial Accounting Standards Board.

***Due from Other Funds/Due to Other Governments***

The State operates the Fund as a reimbursement program, whereby payments made to political subdivisions are funded by the federal Community Development Block Grant (CDBG) program from the U.S. Housing and Urban Development (HUD) passed-through the Mississippi Development Authority (MDA). Funds are disbursed to the political subdivision as they expend funds for the purposes of the Plan and request reimbursement from the Fund. Disbursements are made to political subdivisions after funds are received from MDA.

***Fund Balance***

In accordance with Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the governmental fund balance is classified as follows:

Restricted: includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The fund balance in the fund is restricted for recreation and resources development due to federal grant requirements and state and federal legislation.

***Budget Information***

Under the Constitution of the State of Mississippi, money may only be drawn from the Treasury by a legal appropriation. The Fund operations are included in MDEQ's annual budget.

**STATE OF MISSISSIPPI  
DEPARTMENT OF ENVIRONMENTAL QUALITY**

**HUD/MDA Sub-Grant Fund 5358900000  
Notes to Financial Statements  
June 30, 2015**

**3. GRANT AWARDS.**

The Fund is funded by the U.S. Housing and Urban Development (HUD) Community Development Block Grant (CDBG) passed-through the Mississippi Development Authority (MDA). All funds drawn are recorded as grant awards transferred in from the MDA.

**4. CONTINGENCIES.**

The Fund is exposed to various risks of loss related to torts, theft of assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God. MDEQ maintains insurance coverage provided by the Mississippi Tort Claims Board for some risk of loss related to the Fund. There have not been any claims against the Fund.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although MDEQ expects such amounts, if any, to be immaterial.

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**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**

Mississippi Department of Environmental Quality  
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 State of Mississippi Department of Environmental Quality HUD/MDA Sub-Grant Fund 5358900000, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Mississippi Department of Environmental Quality HUD/MDA Sub-Grant Fund 5358900000's internal control to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A 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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mississippi Department of Environmental Quality HUD/MDA Sub-Grant Fund 5358900000's 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*.

## **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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC  
January 22, 2016

**MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY**

**Audit of Schedule of Federal Grant Activity Transferred in From  
Another State Agency**

**For the Year Ended June 30, 2015**

**MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY**

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## INDEPENDENT AUDITOR'S REPORT

Mississippi Department of Environmental Quality  
Jackson, Mississippi

### Report on the Financial Statements

We have audited the accompanying Schedule of Federal Grant Activity Transferred in From Another State Agency for the selected major program of the Mississippi Department of Environmental Quality, and the related note to the schedule, for the year ended June 30, 2015.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Schedule of Federal Grant Activity Transferred in From Another State Agency for the selected major program 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

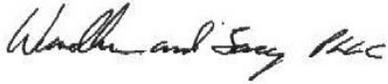
Our responsibility is to express an opinion on the Schedule of Federal Grant Activity Transferred in From Another State Agency for the selected major program based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards 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 of Federal Grant Activity Transferred in From Another State Agency for the selected major program 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 Federal Grant Activity Transferred in From Another State Agency referred to above presents fairly, in all material respects, the federal grant activity transferred in from another state agency as of June 30, 2015, for the selected major program in conformity with accounting principles generally accepted in the United States of America.



Windham and Lacey, PLLC  
January 22, 2016

**Mississippi Department of Environmental Quality  
Federal Grant Activity Transferred In From Another State Agency  
For the Year Ended June 30, 2015**

CFDA Number	Grant Name	Grant Number	Grant Period	Paying Fund	Receiving Fund	Grant Award	Beginning	Receipts		Expenditures		Ending
							Due From (To) Granting Agency	Cumulative As of Period End	Current Fiscal Year	Cumulative Federal As of Period End	Current Fiscal Year Federal	Due From (To) Granting Agency
	DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT/ MISSISSIPPI DEVELOPMENT AUTHORITY/COMMUNITY DEVELOPMENT BLOCK GRANT:											
14.228	GULF COAST WATER/STORM WATER	R102-0011	4/1/06-12/31/15	341W	53471	\$35,361,628		\$75,300		\$75,300		-
	GULF COAST WATER/STORM WATER	R102-0011	4/1/06-12/31/15	341W	53587		\$6,432	\$7,659,769	\$48,454	\$7,659,774	\$42,027	\$5
	GULF COAST WATER/STORM WATER	R102-0011	4/1/06-12/31/15	341W	53589		\$82,445	\$27,770,416	\$216,492	\$27,804,985	\$168,616	\$34,569
14.228	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-12/31/15	341W	53471	\$537,357,307	\$4,092	\$376,580	\$24,651	\$380,846	\$24,825	\$4,266
	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-12/31/15	341W	53587		\$61,947	\$43,734,840	\$2,145,007	\$44,072,947	\$2,421,167	\$338,107
	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-12/31/15	341W	53589		\$2,391,632	\$471,603,652	\$10,107,178	\$474,033,969	\$10,145,863	\$2,430,317
	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-12/31/15	341W	53590			\$154,283		\$154,283		-
14.228	GULF COAST WATER/STORM WATER	R151-0013	6/22/07-12/31/15	341W	53589	\$55,000,000	\$16,813	\$54,865,697	\$1,372,610	\$54,885,958	\$1,376,058	\$20,261
14.228	GULF COAST WATER/STORM WATER	R118-0014	7/2/08-3/30/13	341W	53589	\$25,000,000	0	\$25,000,000	0	\$25,000,000	0	-
												-
												-
												-
												-
												-
	TOTALS					\$652,718,935	\$2,563,361	\$631,240,537	\$13,914,392	\$634,068,062	\$14,178,556	\$2,827,525

See the independent auditor's report and accompanying note to financial statement.

**MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY**

**Note to Schedule of Federal Grant Activity Transferred in From Another State Agency  
For the Year Ended June 30, 2015**

**NOTE 1 – BASIS OF PRESENTATION**

The Schedule of Federal Grant Activity Transferred in From Another State Agency includes the federal grant activity for the selected major program of the Mississippi Department of Environmental Quality and is presented on the accrual basis of accounting. The 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*.

SUPPLEMENTARY INFORMATION

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## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Mississippi Department of Environmental Quality  
Jackson, Mississippi

We have audited, in accordance with the 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 Federal Grant Activity Transferred in From Another State Agency for the selected major program of the Mississippi Department of Environmental Quality, as of and for the year ended June 30, 2015, and the related note to the financial statement, and have issued our report thereon dated January 22, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mississippi Department of Environmental Quality's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule of Federal Grant Activity Transferred in From Another State Agency, but not for the purpose of expressing an opinion on the effectiveness of Mississippi Department of Environmental Quality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Department of Environmental Quality's 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 the entity's 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.

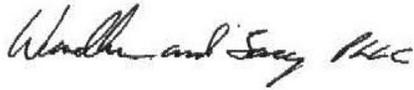
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Schedule of Federal Grant Activity Transferred in From Another State Agency 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 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*.

## **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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC  
January 22, 2016

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Mississippi Department of Environmental Quality  
Jackson, Mississippi

### **Report on Compliance for the Major Federal Program**

We have audited the compliance of the selected major federal program of the Mississippi Department of Environmental Quality with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the selected major federal program for the year ended June 30, 2015. Mississippi Department of Environmental Quality's selected major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Mississippi Department of Environmental Quality's selected major federal program 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the selected major federal program of the Mississippi Department of Environmental Quality's 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 selected major federal program. Our audit does not provide a legal determination on the selected major federal program of the Mississippi Department of Environmental Quality's compliance with those requirements.

### **Opinion on the Major Federal Program**

In our opinion, the selected major federal program of the Mississippi Department of Environmental Quality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the selected major federal program for the year ended June 30, 2015.

## **Report on Internal Control Over Compliance**

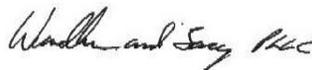
The management of the Mississippi Department of Environmental Quality, is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit, we considered Mississippi Department of Environmental Quality's internal control over compliance for the selected major federal program with the types of requirements that could have a direct and material effect on the selected major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the selected major federal program 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 the entity's 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 the 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of This Report**

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. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC  
January 22, 2016

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015

*Section I - Summary of Auditor's Results*

Federal Awards

Schedule of Federal Grant Activity Transferred in From Another State Agency

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	No
Noncompliance material to the financial statements noted?	No
Internal control over federal program:	
Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	No
Type of auditor's report issued on compliance for the federal program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	No
Federal program identified as a major program:	
U.S. Department of Health and Urban Development/ Community Development Block Grant, CFDA #14.228	
Auditee qualified as a low-risk auditee?	No

*Section II - Financial Statement Findings*

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

*Section III - Federal Award Findings and Questioned Costs*

The results of our tests did not disclose any findings and questioned costs related to federal awards.