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**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)**

**Financial Statements of General Funds Selected for Audit,
Schedule of Analysis of Changes in Accrued Compensated
Absences, Report on Program Specific Audit Under
OMB Circular A-133**

Year Ended June 30, 2015



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**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
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June 30, 2015**

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**Financial Statements of
Funds Selected for Audit**



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INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

Mississippi Department of Rehabilitation Services
Madison, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of General Funds 3324000000 and 5334000000 of the Mississippi Department of Rehabilitation Services ("the Department"), as of and for the year ended June 30, 2015, and the related notes to the financial statements. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements of General Funds 3324000000 and 5334000000 referred to above present fairly, in all material respects, the financial position of General Funds 3324000000 and 5334000000 as of June 30, 2015, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of General Funds 3324000000 and 5334000000 of the Department present only the financial position and changes in financial position of that portion of the governmental activities of the Department and of the State of Mississippi that is attributable to the transactions of General Funds 3324000000 and 5334000000. They do not purport to, and do not, present fairly the financial position of the Department or the State of Mississippi as of June 30, 2015, or the changes in financial position of each entity for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are 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 April 8, 2016, on our consideration of the Department'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* in considering the Department's internal control over financial reporting and compliance.

Management has omitted the Management Discussion and Analysis and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
April 8, 2016

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Balance Sheets of General Funds Selected for Audit**

<i>June 30, 2015</i>	General Funds	
	Fund 3324000000	Funds 5334000000
Assets		
Equity in State Treasury funds	\$ 3,859,320	\$ (2,052,862)
Due from other State Treasury funds	1,537,563	-
Due from Federal Government	-	8,451,426
Other receivable	95,000	31,288
Total assets	\$ 5,491,883	\$ 6,429,852
Liabilities and Fund Balance		
Accounts payable	\$ 208,868	\$ 1,825,476
Due to other State Treasury funds	9,325,697	1,541,861
Due to other governments	66,057	463,346
Unavailable revenue	-	2,572,004
Total liabilities	9,600,622	6,402,687
Contingencies (Note 5)		
Fund balance (deficit) - restricted	(4,108,739)	27,165
Total liabilities and fund balance	\$ 5,491,883	\$ 6,429,852

See independent auditors' report and accompanying notes to financial statements.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Statements of Revenues, Expenditures and Changes in
Fund Balances of General Funds Selected for Audit**

<i>Year ended June 30, 2015</i>	General Funds	
	Fund 332400000	Funds 533400000
Revenues:		
Rehabilitation services revenue	\$ -	\$ 72,676,657
Licenses, fees & permits	-	9,751
Charges for sales & services	-	2,897,628
Other income	237,280	182,332
<hr/>		
Total revenues	237,280	75,766,368
Expenditures:		
Salaries	7,390,629	30,809,988
Travel	329,444	982,071
Contractuals	3,191,117	9,860,096
Commodities	140,903	724,163
Capital outlay	(6,895)	520,316
Subsidies	31,563,444	29,494,357
Principal or other indebtedness	-	1,113,225
Interest or other indebtedness	-	246,179
<hr/>		
Total expenditures	42,608,642	73,750,395
Excess (deficit) of revenues over expenditures	(42,371,362)	2,015,973
Other financing sources (uses):		
Transfers in	52,872,416	360,000
Transfers out	(14,699,942)	(3,392,603)
<hr/>		
Net other financing sources (uses)	38,172,474	(3,032,603)
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Excess (deficit) revenues and other financing sources over (under) expenditures	(4,198,888)	(1,016,630)
<hr/>		
Fund balance, beginning of year	90,149	1,043,795
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Fund balance (deficit), end of year	\$ (4,108,739)	\$ 27,165

See independent auditors' report and accompanying notes to financial statements.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Financial Statements of Funds Selected for Audit**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Background Information

The Mississippi Department of Rehabilitation Services (“the Department”) is a state agency whose main function is to provide for rehabilitation, habilitation and other services to eligible individuals with disabilities, their families and the community. The Department also provides programs and services to assist individuals with disabilities to gain employment, retain employment and/or to live more independently.

Purpose of General Funds 3324000000 and 5334000000

General Fund 3324000000 is related to the Office of Special Disability Programs (“OSDP”) and provides services to individuals with the most severe disabilities who do not necessarily demonstrate immediate potential for competitive employment. Substantially all services rendered are provided to individuals eligible for Medicaid coverage and thus the primary source of revenue for Fund 3324000000 is transfers from the Mississippi Division of Medicaid. General Fund 5334000000 is related to all Federal Funding including Office of Disability Determination Services (“DDS”), Vocational Rehabilitation (VR), and Office of Vocational Rehabilitation for the Blind (VRB). DDS operates in a partnership with the Social Security Administration (“SSA”) to make disability decisions on Social Security and Supplemental Security Income disability claims. VR is the largest state agency committed solely to helping people with disabilities achieve independence through employment and their services include vocational evaluation, counseling and guidance, educational assistance, job training, job placement and assistive technology. VRB offers programs and services that specialize in working with blind and low vision impaired individuals to optimize their opportunities for inclusion into the workforce, community, and home. Fund balances are restricted for these purposes.

Basis of Presentation

The accompanying program specific financial statements have been prepared in conformity with generally accepted accounting principles (“GAAP”) as prescribed by the Governmental Accounting Standards Board (“GASB”). General fund types are used for General Funds 3324000000 and 5334000000. These fund types are accounted for on a flow of current financial resources measurement focus. These focus measures financial resources available to the entity in the near future as a result of transactions and events of the fiscal period reported. The modified accrual basis of accounting is utilized. Under this method, revenues are recognized when they become measurable and available, and expenditures are generally recognized when they are incurred. Principal and interest on general obligation long-term debt, if any, is recognized when due. In connection with the preparation of the financial statements, management of the Department evaluated subsequent events through April 8, 2016 which is the date the financial statements were available to be issued.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Financial Statements of Funds Selected for Audit**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The Department's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing its financial statements, the Department is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of revenues and expenditures for the years then ended. Actual results could differ significantly from those estimates.

Fund Accounting

The financial activities of the Department are recorded in individual funds and account groups used to report financial position and results of operations. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. The Department funds presented herein utilize the governmental fund category, which is further divided into separate "fund types". General funds are used to account for the proceeds of revenue sources that are not legally restricted to expenditures for specified purposes.

Receivables

Receivables are reported net of allowances for uncollectible accounts, where applicable. At June 30, 2015 there was no allowance deemed necessary. The total \$8,451,426 of the accounts receivable for Fund 5334000000 is receivable from the federal government.

Interfund Activity

In the selected fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures of the disbursing fund. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Transfers represent flows of assets between funds of the state without equivalent flows of assets in return and without a requirement for payment.

Deferred Inflows of Resources

In addition to liabilities, the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents items that are deferred revenues that will not be recognized as an inflow of resources until future period(s) when they become available. When applicable, deferred inflows of resources consist of

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Financial Statements of Funds Selected for Audit**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

cumulative receipts of federal funding in excess of cumulative expenditures on specific grant awards that will not be recognized as an inflow of resources until future periods when they become available.

Risk Management

The Department is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; error and omissions; and natural disasters. The State of Mississippi has elected to finance most exposures to risk through the retention of risk. The State utilizes the internal service Risk Management Fund to account for these activities.

NOTE 2: EQUITY IN STATE TREASURY FUNDS

Equity in State Treasury funds consists of pooled cash held by the Treasurer of the State of Mississippi. The collateral for public entities' deposits in financial institutions are 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 entities' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

NOTE 3: TRANSFERS BETWEEN FUNDS AND FROM OTHER STATE AGENCIES

Net transfers from (to) other Department funds and other state agencies to (from) General Funds 3324000000 and 5334000000 were made in the amounts of \$38,172,474 and (\$3,032,603) respectively, during the year ended June 30, 2015.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Financial Statements of Funds Selected for Audit**

NOTE 3: TRANSFERS BETWEEN FUNDS AND FROM OTHER STATE AGENCIES (Continued)

Transfers from (to) other Department funds and other state agencies are detailed below.

<i>Year ended June 30, 2015</i>	General Funds	
	Fund 3324000000	Funds 5334000000
Division of Medicaid	\$ 52,316,681	\$ -
State Treasurer	600,000	-
Department of Mental Health	-	360,000
Department of Rehabilitation Services - Support Services	(468,454)	(2,043,528)
Emergency Management	(45,214)	-
Department of Employment Security	(17,249)	(21,990)
Division of Medicaid	(14,213,290)	-
Department of Public Safety	-	(207,699)
Office of Attorney General	-	(108,379)
Department of Finance and Administration	-	(1,011,007)
	\$ 38,172,474	\$ (3,032,603)

NOTE 4: DUE FROM (TO) OTHER STATE TREASURY FUNDS

Due from other State Treasury Funds consisted of the following:

<i>June 30, 2015</i>	General Funds	
	Fund 3324000000	Funds 5334000000
Division of Medicaid	\$ 47,154	\$ -
Department of Rehabilitation Services Fund 2224000000	1,490,409	-
	\$ 1,537,563	\$ -

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Notes to Financial Statements of Funds Selected for Audit**

NOTE 4: DUE FROM (TO) OTHER STATE TREASURY FUNDS (Continued)

Due to other State Treasury Funds consisted of the following:

<i>June 30, 2015</i>	General Funds	
	Fund 3324000000	Funds 5334000000
AbilityWorks, Inc. - Medicaid - (Division of MDRS)	\$ 5,169,618	\$ -
AbilityWorks, Inc. - Multiple Locations - (Division of MDRS)	9,748	121,016
Office of the Attorney General	5,475	37,664
Department of Public Safety	7,744	-
Department of Mental Health - Multiple Locations	-	90,697
Department of Finance and Administration	19,463	1,237,472
Department of Employment Security	3,705	4,573
Information Technology Services	8,144	25,745
Personnel Board	1,240	4,075
Office of the State Auditor	-	2,040
Workers' Comp Trust Fund 3364200000	2,004	9,781
Other State Agencies	-	8,798
Public Service Commission of Yazoo City	491	-
Division of Medicaid	4,098,065	-
	\$ 9,325,697	\$ 1,541,861

NOTE 5: CONTINGENCIES

The Department is involved in litigation arising out of the normal course of operations and, in management's opinion; the outcome of these matters is not expected to have a material adverse effect on the Department's financial position or changes in financial position.



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INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF ANALYSIS OF CHANGES IN ACCRUED COMPENSATED ABSENCES

Mississippi Department of Rehabilitation Services
Madison, Mississippi

Report on the Schedule of Analysis of Changes in Accrued Compensated Absences

We have audited the accompanying schedule of analysis of changes in accrued compensated absences of the Mississippi Department of Rehabilitation Services (the "Department") as of and for the year ended June 30, 2015. This schedule is presented for the purpose of assisting the State of Mississippi in preparation of its annual financial report and is not a required part of the fund financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on this 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. 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 schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 schedule.

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 analysis of changes in accrued compensated absences referred to above presents fairly, in all material respects, the balance of and the changes in accrued compensated absences of the Department as of and for the year ended June 30, 2015, 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 our report dated April 8, 2016, on our consideration of the Department's 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 the Department's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
April 8, 2016

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Schedule of Analysis of Changes in Accrued Compensated Absences
Year Ended June 30, 2015**

	Balances as of July 1, 2014	Additions	Deletions	Balances as of June 30, 2015
Accrued compensated absences	\$ 3,267,944	\$ 2,053,602	\$ 2,042,828	\$ 3,278,718
	\$ 3,267,944	\$ 2,053,602	\$ 2,042,828	\$ 3,278,718

See notes to Schedule of Analysis of Changes in Accrued Compensated Absences.

**Mississippi Department of Rehabilitation Services
(A Department of the State of Mississippi)
Schedule of Analysis of Changes in Accrued Compensated Absences
Year Ended June 30, 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accumulated 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 analysis of changes in long-term obligations. 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.

NOTE 2: COMPENSATED ABSENCES

The Department's liability for compensated absences at June 30, 2015, is \$3,278,718 for governmental activities. The report liability includes related fringe benefits and excludes any obligations related to leave accumulations in excess of 30 days per employee.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mississippi Department of Rehabilitation Services
Madison, 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 financial statements of General Funds 3324000000 and 5334000000 of the Mississippi Department of Rehabilitation Services (the "Department"), which comprise the balance sheet as of June 30, 2015, and the related statements of revenues, expenditures and changes in fund balances 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 April 8, 2016. We have also audited the schedule of analysis of changes in accrued compensated absences (the "Schedule") as of and for the year ended June 30, 2015, and issued our report thereon dated April 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements and the Schedule, we considered the Department's internal control over financial reporting (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 the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 Department's financial statements of General Funds 3324000000 and 5334000000 and the Schedule are free from 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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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 Department'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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
April 8, 2016