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**MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES
(A Department of the State of Mississippi)**

**Financial Statements of General Funds Selected
for Audit, Supplementary Data and Independent
Auditors' Report on Program-Specific Audit Under
OMB Circular A-133**

Year Ended June 30, 2013

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

Table of Contents
June 30, 2013

Financial Statements of Funds Selected for Audit:

Independent Auditors' Report	1 - 2
Balance Sheets of General Funds 3240 and 3340	3
Statements of Revenues, Expenditures and Changes in Fund Balances of General Funds 3240 and 3340	4
Notes to Financial Statements of Funds Selected for Audit	5 - 9
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 <i>Government Auditing Standards</i>	10 - 11

Federal Programs Selected for Audit:**Vocational Rehabilitation Cluster:**

**Rehabilitation Services – Vocational Rehabilitation, Grants to States –
CFDA # 84.126**
**Rehabilitation Services – Vocational Rehabilitation, Grants to States,
Recovery Act – CFDA # 84.390A**

Independent Auditors' Report on the Financial Statement of a Federal Program in Accordance with Program-Specific Audit Option Under OMB Circular A-133	12 - 13
Schedule of Federal Grant Expenditures Selected for Audit	14
Notes to Schedule of Federal Grant Expenditures Selected for Audit	15
Independent Auditors' Report on Compliance for a Federal Program and Report on Internal Control Over Compliance When Using the Program-Specific Audit Option to Satisfy OMB Circular A-133 Requirements	16 - 17
Schedule of Findings and Questioned Costs	18

**Financial Statements of
Funds Selected for Audit**

INDEPENDENT AUDITORS' REPORT

Mississippi Department of Rehabilitation Services
Madison, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of General Funds 3240 and 3340 of the Mississippi Department of Rehabilitation Services ("the Department"), as of and for the year ended June 30, 2013, 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 3240 and 3340 referred to above present fairly, in all material respects, the financial position of General Funds 3240 and 3340 as of June 30, 2013, 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 3240 and 3340 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 3240 and 3340. 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, 2013, 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 December 6, 2013, 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.

Car. Riggs # Ingram, LLC

Ridgeland, Mississippi
December 6, 2013

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

Balance Sheets of General Funds 3240 and 3340

<i>June 30, 2013</i>	General Funds	
	Fund 3240	Fund 3340
Assets		
Cash	\$ 7,515,291	\$ 1,297,377
Due from other State Treasury funds	3,759,738	19,391
Due from Federal Government	3,325	641,943
Other receivable	95,000	3,000
Total Assets	\$ 11,373,354	\$ 1,961,711
Liabilities, Deferred Inflows of Resources, and Fund Balance		
Accounts payable	\$ 7,518,937	\$ 795,446
Due to other State Treasury funds	2,787,570	90,311
Due to other governments	17,884	11,141
Accrued expenses	7,484	12,962
Total liabilities	10,331,875	909,860
Deferred Inflows of Resources:		
Deferred revenues	-	8,286
Contingencies (Note 5)		
Fund balance - restricted	1,041,479	1,043,565
Total liabilities, deferred inflows of resources, and fund balance	\$ 11,373,354	\$ 1,961,711

See notes to financial statements of funds selected for audit.

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

**Statements of Revenues, Expenditures and Changes in
Fund Balances of General Funds 3240 and 3340**

<i>Year ended June 30, 2013</i>	General Funds	
	Fund 3240	Fund 3340
Revenues:		
Rehabilitation services revenue	\$ 223,693	\$ 29,603,335
Other income	1,841	7,650
Total revenues	225,534	29,610,985
Expenditures:		
Salaries	6,481,312	12,523,817
Travel	276,383	39,896
Contractuals	1,494,823	5,001,572
Commodities	278,734	173,263
Capital outlay	176,539	8,500
Subsidies	34,432,843	9,614,353
Principal or other indebtedness	-	820,978
Interest or other indebtedness	-	172,080
Total expenditures	43,140,634	28,354,459
Excess (deficit) of revenues over expenditures	(42,915,100)	1,256,526
Other financing sources (uses):		
Transfers in	36,391,784	-
Transfers out	(352,599)	(962,732)
Net other financing sources (uses)	36,039,185	(962,732)
Excess (deficit) of revenues and other financing sources over (under) expenditures	(6,875,915)	293,794
Fund balance, beginning of year	7,917,394	749,771
Fund balance, end of year	\$ 1,041,479	\$ 1,043,565

See notes to financial statements of funds selected for audit.

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

Notes to Financial Statements of Funds Selected for Audit for Year Ended June 30, 2013

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 3240 and 3340

General Fund 3240 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 3240 is transfers from the Mississippi Division of Medicaid. General Fund 3340 is related to the Office of Disability Determination Services ("DDS") and operates in a partnership with the Social Security Administration ("SSA") to make disability decisions on Social Security and Supplemental Security Income disability claims. 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 3240 and 3340. 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 December 6, 2013, which is the date the financial statements were available to be issued.

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.

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

Notes to Financial Statements of Funds Selected for Audit for Year Ended June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013, there was no allowance deemed necessary. A significant portion (\$641,943) of the accounts receivable for Fund 3340 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. Deferred inflows of resources consist of 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.

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

Notes to Financial Statements of Funds Selected for Audit for Year Ended June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Accounting Pronouncements

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* – An amendment of GASB No. 27. GASB No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB No. 50, as they relate to governments that provide pensions through pension plans administered as trust or similar arrangements that meet certain criteria. GASB No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB No. 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB No. 68 are effective for fiscal years beginning after June 15, 2014.

Management has not completed its evaluation to determine the effect, if any, the adoption of this statement will have on the Department's financial statements.

Changes in Accounting Standards

The Department implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows or Resources, and Net Position* in the current year. The Department also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in the current year. The provisions of these standards have been incorporated into the financial statements and the notes.

NOTE 2 – CASH AND OTHER DEPOSITS

Cash 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 3240 and 3340 were made in the amounts of \$36,039,185 and \$(962,732), respectively, during the year ended June 30, 2013.

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

Notes to Financial Statements of Funds Selected for Audit for Year Ended June 30, 2013

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>Years ended June 30, 2013</i>	General Funds	
	3240	3340
Mississippi Division of Medicaid	\$ 29,891,784	\$ -
Mississippi Department of Finance and Administration	6,500,000	-
Mississippi Department of Rehabilitation Services - Support Services	(339,078)	(654,359)
Mississippi Department of Finance and Administration	(13,521)	(308,373)
	\$ 36,039,185	\$ (962,732)

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

Due from other State Treasury Funds consisted of the following:

<i>June 30, 2013</i>	General Funds	
	3240	3340
Mississippi Emergency Management Agency	\$ 147,461	\$ -
Mississippi Division of Medicaid	2,624,827	-
Mississippi Department of Rehabilitation Services:		
Fund 3235	-	100
Fund 3240	-	8,289
Fund 3330	9,161	9,545
Fund 3332	974,243	57
Fund 3335	4,046	1,104
Fund 3341	-	296
	\$ 3,759,738	\$ 19,391

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

Notes to Financial Statements of Funds Selected for Audit for Year Ended June 30, 2013

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

Due to other State Treasury Funds consisted of the following:

<i>June 30, 2013</i>	General Funds	
	3240	3340
Mississippi State University - TK Martin Center	\$ 675	\$ -
Mississippi Prison Industries	651	-
North Mississippi State Hospital	-	14
Southern Mississippi State Hospital	-	14
State Treasurer 371H (Public Safety)	5,664	-
Mississippi Division of Medicaid	2,723,096	-
Mississippi Department of Health	-	56
Workers Compensation Commission	-	56
Mississippi Department of Corrections	-	168
Mississippi Department of Rehabilitation Services:		
Fund 3340	8,289	-
Fund 3335	49,195	90,003
	<u>\$ 2,787,570</u>	<u>\$ 90,311</u>

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.

**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 3240 and 3340 of the Mississippi Department of Rehabilitation Services (the "Department"), which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenditures and changes in fund balances as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated December 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 3240 and 3340 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.

Carri Rigg # Ingram, LLC

Ridgeland, Mississippi
December 6, 2013

**Rehabilitation Services – Vocational Rehabilitation
Grants to States
CFDA # 84.126**

**Rehabilitation Services – Vocational Rehabilitation
Grants to States, Recovery Act
CFDA # 84.390A**

**INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL STATEMENT OF A FEDERAL
PROGRAM IN ACCORDANCE WITH THE PROGRAM-
SPECIFIC AUDIT OPTION UNDER OMB CIRCULAR A-133**

Mississippi Department of Rehabilitation Services
Madison, Mississippi

Report on Schedule of Expenditures of Federal Awards

We have audited the accompanying schedule of federal grant expenditures for the Vocational Rehabilitation Cluster, which includes Rehabilitation Services – Vocational Rehabilitation Grants to States and Rehabilitation Services – Vocational Rehabilitation Grants to States Recovery Act Program, of the Mississippi Department of Rehabilitation Services ("the Department") for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the financial statement of the Vocational Rehabilitation Cluster, which includes Rehabilitation Services – Vocational Rehabilitation Grants to States and Rehabilitation Services – Vocational Rehabilitation Grants to States Recovery Act Program, of the Department 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 financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement for the Department's Vocational Rehabilitation Cluster, which includes Rehabilitation Services – Vocational Rehabilitation Grants to States and Rehabilitation Services – Vocational Rehabilitation Grants to States Recovery Act Program, based on our audit.

We conducted our audit 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 the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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 expenditures referred to above presents fairly, in all material respects, the expenditures of federal awards under the Vocational Rehabilitation Cluster, which includes Rehabilitation Services – Vocational Rehabilitation Grants to States and Rehabilitation Services – Vocational Rehabilitation Grants to States Recovery Act Program, of the Department in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of management, members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Carl Riggs # Ingram, LLC

Ridgeland, Mississippi
December 6, 2013

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

Schedule of Federal Grant Expenditures Selected for Audit Year Ended June 30, 2013

Federal Grantor / Cluster Title / Program Name	CFDA Number	Expenditures
U.S. Department of Education / Rehabilitation Services:		
Vocational Rehabilitation Cluster:		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	
Fund 3235		\$ 6,280,020
Fund 3330		38,623,219
Total Program Expenditures for CFDA 84.126		44,903,239
ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	84.390A	
Fund 3235		-
Fund 3330		-
Fund 3240		-
Total Program Expenditures for CFDA 84.390A		-
Total Program Expenditures for the Vocational Rehabilitation Cluster		\$ 44,903,239

See notes to schedule of federal grant expenditures.

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

**Notes to the Schedule of Federal Grant Expenditures Selected for Audit
Year Ended June 30, 2013**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedules only include the expenditures of the Vocational Rehabilitation Cluster, which is comprised of the Rehabilitation Services - Vocational Rehabilitation Grants to States Program and Rehabilitation Services - Vocational Rehabilitation Grants to States Recovery Act Program, administered by the Mississippi Department of Rehabilitation Services. The federal programs included in the accompanying schedules are accounted for by using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are generally recognized when the related liabilities are incurred. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. 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*.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR A
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE WHEN USING THE PROGRAM-SPECIFIC
AUDIT OPTION TO SATISFY OMB CIRCULAR A-133 REQUIREMENTS**

Mississippi Department of Rehabilitation Services
Madison, Mississippi

Report on Compliance for Vocational Rehabilitation Cluster

We have audited the compliance of the Mississippi Department of Rehabilitation Services (the "Department") 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 following programs: the Vocational Rehabilitation Cluster, which is comprised of the Rehabilitation Services - Vocational Rehabilitation Grants to States Program and Rehabilitation Services - Vocational Rehabilitation Grants to States Recovery Act Program, ("the Programs") for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Rehabilitation Services - Vocational Rehabilitation Grants to States Program and Rehabilitation Services - Vocational Rehabilitation Grants to States Recovery Act Program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Department's Rehabilitation Services - Vocational Rehabilitation Grants to States Program and Rehabilitation Services - Vocational Rehabilitation Grants to States Recovery Act 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 the Programs occurred. An audit includes examining, on a test basis, evidence about the Department'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 Department's Rehabilitation Services – Vocational Rehabilitation Grants to States program. Our audit does not provide a legal determination of the Department's compliance.

Opinion

In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Department's Programs audited for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on the selected 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 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 Department'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 internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Carr, Riggs & Ingram, LLC

Ridgeland, Mississippi
December 6, 2013

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

Schedule of Findings and Questioned Costs

For the year ended June 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified

not considered to be material weakness(es)? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness identified? No

Significant deficiency(ies) identified

not considered to be material weakness(es)? No

Type of auditors' report issued on compliance
for programs audited:

Unqualified

Any audit findings disclosed that are required to be reported in
accordance with Circular A-133 (section .510 (a))?

No

Identification of program(s) audited:

CFDA Number(s)

84.126

Name of Federal Program or Cluster Number

Rehabilitation Services – Vocational Rehabilitation Grants to
States

84.390A

Rehabilitation Services – Vocational Rehabilitation Grants to
States, American Reinvestment and Recovery Act

Section II – Federal Award Findings and Questioned Costs

There were no current year Federal award findings or questioned costs.

Section III – Prior Year Findings and Questioned Costs

There were no prior year Federal award findings or questioned costs.