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**MISSISSIPPI DEPARTMENT OF  
REHABILITATION SERVICES**  
Madison, Mississippi

**Financial Statements of General Funds  
Selected for Audit**  
Year Ended June 30, 2017

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
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"), which comprise the balance sheets as of June 30, 2017 and the related statements of revenues, expenditures and changes in fund balances for the year then ended and the related notes to the financial statements.

### 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 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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of General Funds 3324000000 and 5334000000 as of June 30, 2017 and the respective 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 Matters**

As discussed in Note 1, the financial statements present only the General Funds 3324000000 and 5334000000 and do not purport to and do not, present fairly the financial position of the Department as of June 30, 2017, the changes in its financial position or, where applicable its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, the 2016 fund deficit for General Fund 5334000000 has been restated for the correction of a certain error. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Prior Year Financial Statements*

As part of our audit of the 2017 financial statements, we also audited the adjustments described in Note 2 that were applied to restate the 2016 fund deficit. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2016 financial statements of the Company other than with respect to the aforementioned adjustments and accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

### *Required Supplementary Information*

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018, 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 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

HORNE, LLP



Ridgeland, Mississippi  
February 8, 2018

**Mississippi Department of Rehabilitation Services**  
**Balance Sheets of General Funds Selected for Audit**  
**June 30, 2017**

	<b>General Funds</b>	
	<b>Fund 3324000000</b>	<b>Fund 5334000000</b>
<b>ASSETS</b>		
Equity in State Treasury funds	\$ 3,067,704	\$ -
Due from other State funds	301,373	1,584,996
Due from federal government	-	8,905,150
Other receivable	103,963	3,000
Total assets	<u>\$ 3,473,040</u>	<u>\$ 10,493,146</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Deficit in State Treasury funds	\$ -	\$ 5,621,883
Accounts payable	170,609	4,267,065
Due to other State funds	7,180,467	1,456,953
Due to other governments	20,048	164,989
Total liabilities	<u>7,371,124</u>	<u>11,510,890</u>
Fund balance (deficit) - unrestricted	<u>(3,898,084)</u>	<u>(1,017,744)</u>
Total liabilities and fund balance	<u>\$ 3,473,040</u>	<u>\$ 10,493,146</u>

See accompanying notes to the financial statements.

**Mississippi Department of Rehabilitation Services**  
**Statements of Revenues, Expenditures, and Changes in Fund Balances of General Funds Selected for Audit**  
**Year Ended June 30, 2017**

	<b>General Funds</b>	
	<b>Fund 3324000000</b>	<b>Fund 5334000000</b>
<b>Revenues</b>		
Rehabilitation services revenue	\$ -	\$ 64,700,739
Licenses, fees & permits	1,576	1,156
Charges for sales & services	-	686,683
Other income	217,464	111,690
Total revenues	<u>219,040</u>	<u>65,500,268</u>
<b>Expenditures</b>		
Salaries	8,609,138	27,523,991
Travel	370,537	916,030
Contractuals	1,317,183	8,202,040
Commodities	202,313	764,980
Capital outlay	3,742	119,812
Subsidies	49,394,801	24,846,704
Principal or other indebtedness	-	466,600
Interest or other indebtedness	-	238,465
Total expenditures	<u>59,897,714</u>	<u>63,078,622</u>
Excess (deficit) of revenues over (under) expenditures	(59,678,674)	2,421,646
<b>Other financing sources (uses):</b>		
Transfers in	62,110,620	-
Transfers out	(5,187,577)	(3,382,444)
Net other financing sources (uses)	<u>56,923,043</u>	<u>(3,382,444)</u>
Excess (deficit) of revenues and other financing sources over (under) expenditures	(2,755,631)	(960,798)
Fund deficit, beginning of year (as previously reported)	(1,142,453)	(1,411,719)
Cumulative effect of accounting corrections	-	1,354,773
Fund deficit, beginning of year (as restated)	<u>(1,142,453)</u>	<u>(56,946)</u>
Fund balance (deficit), end of year	<u>\$ (3,898,084)</u>	<u>\$ (1,017,744)</u>

See accompanying notes to the financial statements.



**MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES**  
Year Ended June 30, 2017

**NOTES TO FINANCIAL STATEMENTS OF GENERAL FUNDS SELECTED FOR AUDIT**

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**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. Indirect costs are allocated based on a reasonable methodology or usage factors such as square footage or time incurred.

Basis of Presentation

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

Fund Accounting

The financial activities of the Department are recorded in individual funds and account groups used to report financial position and changes in financial position. 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 utilizes 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.

**MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES**  
Year Ended June 30, 2017

**NOTES TO FINANCIAL STATEMENTS OF GENERAL FUNDS SELECTED FOR AUDIT**

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**Note 1. Continued**

Measurement Focus and Basis of Accounting

Governmental fund financial statements are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are generally included on the balance sheet. Under this method, revenues are recognized when they become measurable and available and expenditures are generally recognized when they are incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues, expenditures and other changes in fund balances during the reporting period. Actual results could differ from those estimates.

Receivables

Receivables are reported net of allowances for uncollectible accounts, where applicable. No allowance for uncollectible accounts is recorded at June 30, 2017.

Interfund Receivables/Payables

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as due from or due to other funds.

Interfund Activity

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

Federal Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenue when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

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**  
Year Ended June 30, 2017

**NOTES TO FINANCIAL STATEMENTS OF GENERAL FUNDS SELECTED FOR AUDIT**

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**Note 2. Restatement of Financial Statements**

Subsequent to the issuance of the 2016 financial statements for General Fund 5334000000, management determined it had not accounted for certain transactions in accordance with U.S. GAAP. Accordingly, the Department corrected the errors as described below.

Fund deficit for General Fund 5334000000 at June 30, 2016 has been restated for federal revenues of \$1,354,773, which became measurable and available during fiscal 2016. This correction reduced the previously reported 2016 deficit of revenues and other financing sources under expenditures by this amount.

**NOTE 3. Equity in State Treasury Funds**

Equity in State Treasury funds consists of pooled cash held by the Treasurer of the State of Mississippi. Custodial credit risk is the risk that in the event of the failure of a financial institution, the government will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Department's deposit policy for protection of custodial risk is handled under a statewide collateral program. The collateral for public entities' deposits in financial institutions is held by the depository bank in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the state's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against 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 4. Interfund Transfers, Receivables and Payables**

At June 30, 2017, receivables from other State funds, including other Department funds, consisted of:

	<b>General Funds</b>	
	<b>3324000000</b>	<b>5334000000</b>
Division of Medicaid	\$ 301,373	\$ -
Department Fund 3333000000	-	1,584,996
Total	<u>\$ 301,373</u>	<u>\$ 1,584,996</u>

**MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES**  
Year Ended June 30, 2017

**NOTES TO FINANCIAL STATEMENTS OF GENERAL FUNDS SELECTED FOR AUDIT**

**NOTE 4. Continued**

At June 30, 2017, payables to other State funds, including other Department funds, consisted of:

	<b>General Funds</b>	
	<b>3324000000</b>	<b>5334000000</b>
AbilityWorks, Inc. (Division of the Department)	\$ 7,030,476	\$ 30,988
Department Fund 3335000000	33,051	91,648
Department of Health	49,857	-
Mississippi State University	27,000	-
University Medical Center	20,585	-
University of Southern Mississippi	19,497	-
Department of Finance and Administration	-	1,011,007
Department of Education	-	192,375
Department of Mental Health	-	53,215
Office of the Attorney General	-	24,958
Department of Public Safety	-	22,664
Department of Employment Security	-	16,946
Social Security Administration	-	11,542
Department of Health and Human Services	-	1,610
<b>Total</b>	<b>\$ 7,180,467</b>	<b>\$ 1,456,953</b>

Transfers from and (to) other State funds, including other Department funds, for the year ended June 30, 2017 are as follows:

	<b>General Funds</b>	
	<b>3324000000</b>	<b>5334000000</b>
Department Fund 3335000000	\$ (467,392)	\$ (1,950,455)
Division of Medicaid	57,348,540	-
Mississippi Emergency Management Agency	41,895	-
Department of Finance and Administration	-	(1,011,007)
Department of Public Safety	-	(212,104)
Office of Attorney General	-	(144,529)
Department of Employment Security	-	(64,349)
<b>Total</b>	<b>\$ 56,923,043</b>	<b>\$ (3,382,444)</b>

**MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES**  
Year Ended June 30, 2017

**NOTES TO FINANCIAL STATEMENTS OF GENERAL FUNDS SELECTED FOR AUDIT**

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**NOTE 5. Defined Benefit Pension Plan**

The Department participates in the Public Employees' Retirement System of Mississippi ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature (the "State Legislature"). PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS.

During 2017, PERS members were required to contribute 9 percent of their annual covered salary and the Department is required to contribute at an actuarially determined rate, which was 15.75 percent of annual covered payroll. The contribution requirements of PERS members are established and may only be amended by the State Legislature. While the Department's contributions are made at the agency level, General Funds 3324000000 and 5334000000 incurred expenditures in 2017 of \$997,967 and \$4,282,413, respectively, in connection with required contributions to PERS.

**NOTE 6. Contingencies and Commitments**

The Department has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the Department. The amount, if any, of expenditures that may be disallowed by the grantors cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

**NOTE 7. Subsequent Events**

The Department has evaluated subsequent events through February 8, 2018, which is the date the financial statements were available to be issued.



**INDEPENDENT AUDITOR'S 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***

Board of Directors  
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 sheets as of June 30, 2017 and the related statements of revenues, expenditures and changes in fund balances for the year then ended and the related notes to the financial statements and have issued our report thereon dated February 8, 2018, which contained an *Emphasis of Matters* paragraph regarding the reporting entity reflected in the financial statements and the restatement of the 2016 financial statements for the correction of a certain error and an *Other Matters* paragraph regarding the prior year financial statements and omission of management's discussion and analysis.

**Internal Control over Financial Reporting**

In planning and performing our audits 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, Finding 2017 - 022, that we consider to be a material weakness.

#### **Finding No. 2017-022**

**Criteria:** Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.

**Condition:** Certain revenues totaling \$1,354,773 in General Fund 5334000000 were not recognized when they became measurable and available.

**Cause:** The Department's accounting policies and procedures did not allow for these transactions to be applied to the appropriate period in accordance with the modified accrual basis of accounting.

**Effect:** A restatement of beginning fund balance for General Fund 5334000000 was required to correct the recognition of the revenues previously described. The effect of the accounting correction to General Fund 5334000000 reduced the previously reported fund deficit at July 1, 2016.

**Auditor's Recommendation:** Management should implement a process, whereby similar transactions are recorded in the appropriate period in accordance with the modified accrual basis of accounting.

**Views of Responsible Officials:** While the agency concurs that revenues totaling \$1,354,773 were not recorded on the Schedule of Expenditures of Federal Awards ("SEFA"), we do not agree this finding is material to the financial statements. This amount represents 2 percent of total expenditures in this fund, which is less than the 5 percent materiality threshold utilized by the Office of the State Auditor. In addition, since implementation of the new accounting system, MAGIC, in 2014, system reporting has proven burdensome. Internal controls will be strengthened to ensure revenue is properly recorded on future SEFA.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements of General Funds 3324000000 and 5334000000 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*.

#### **Department's Response to Findings**

The Department's response to the finding identified in our audits has been previously described in this report. The Department's response was not subjected to the auditing procedures applied in the audits of the financial statements or and, accordingly, we express no opinion on it.

## Purpose of this Report

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

HORNE, LLP

A handwritten signature in black ink that reads "HORNE LLP". The letters are cursive and slanted to the right.

Ridgeland, Mississippi  
February 8, 2018



**MISSISSIPPI DEPARTMENT OF  
REHABILITATION SERVICES**  
Madison, Mississippi

**Schedule of Changes in Accrued  
Compensated Absences**  
Year Ended June 30, 2017

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Mississippi Department of Rehabilitation Services  
Madison, Mississippi

### Report on the Schedule

We have audited the accompanying schedule of changes in accrued compensated absences of the Mississippi Department of Rehabilitation Services (the "Department") for the year ended June 30, 2017 and the related notes to the schedule.

### Management's Responsibility for the Schedule

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 the schedule that is 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 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 referred to above presents fairly, in all material respects, the changes in accrued compensated absences for the year ended June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018, on our consideration of the Department's internal control over the reporting of the schedule and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the reporting of the schedule and compliance and the results of that testing and not to provide an opinion on the internal control over the reporting of the schedule 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 reporting of the schedule and compliance.

HORNE, LLP

A handwritten signature in black ink that reads "HORNE LLP". The letters are stylized and cursive.

Ridgeland, Mississippi  
February 8, 2018

**Mississippi Department of Rehabilitation Services**  
**Schedule of Changes in Accrued Compensation Absences**  
**Year Ended June 30, 2017**

	Balance as of July 1, 2016		Additions		Deletions		Balance as of June 30, 2017
Accrued compensated absences	\$ 3,434,038	\$	2,111,865	\$	2,089,537	\$	3,456,366

See accompanying notes to the schedule.

**MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES**  
Year Ended June 30, 2017

**NOTES TO SCHEDULE OF CHANGES IN ACCRUED COMPENSATED ABSENCES**

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**NOTE 1: Summary Of Significant Accounting Policies**

Basis of Presentation

The schedule of changes in accrued compensated absences of the Mississippi Department of Rehabilitation Services ("Department") is presented on the accrual basis of accounting.

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 changes in accrued compensated absences. The State uses the last-in, first-out method of recognizing use of compensated absences. The reported liability applicable to all funds includes the related fringe benefits that the State, as employer, is required to pay when the accrued compensated absences are liquidated. Accumulated unpaid major medical leave is not accrued, because it is not probable that the compensation will be paid in a lump sum other than in the event of severe illness.

**Note 2. Subsequent Events**

The Department has evaluated subsequent events through February 8, 2018, which is the date the schedule was available to be issued.



**INDEPENDENT AUDITOR'S 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***

Board of Directors  
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 schedule of changes in accrued compensated absences for the year ended June 30, 2017, and issued our report thereon dated February 8, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of 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 schedule, 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 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. We consider the deficiency described below to be a material weakness. 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 schedule is 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 schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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.

HORNE, LLP

A handwritten signature in black ink that reads "HORNE LLP". The letters are stylized and cursive.

Ridgeland, Mississippi

February 8, 2018



**MISSISSIPPI DEPARTMENT OF  
REHABILITATION SERVICES**

**Report on Compliance in  
Accordance with The Uniform Guidance for the  
Social Security – Disability Insurance Program  
For the Year Ended June 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

Mississippi Department  
of Rehabilitation Services  
Madison, Mississippi

### Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying schedule of expenditures of federal awards for the Social Security – Disability Insurance Program of the Mississippi Department of Rehabilitation Services (the "Department") for the year ended June 30, 2017 and the related notes (the "schedule").

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

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.

### Auditor's 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 referred to above presents fairly, in all material respects, the expenditures of federal awards for the Social Security – Disability Insurance Program of the Department for the year ended June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018 on our consideration of 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.

Ridgeland, Mississippi

A handwritten signature in black ink that reads "HORNE LLP". The letters are stylized and slanted to the right.

February 8, 2018

**MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES**  
**Social Security – Disability Insurance Program (CFDA 96.001)**  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
Social Security Administration:			
Social Security – Disability Insurance	96.001	\$ -	\$ 26,606,471
<i>Total Program Expenditures for CFDA 96.001</i>		\$ -	\$ 26,606,471

**MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES**  
**Social Security – Disability Insurance Program (CFDA 96.001)**  
For the Year Ended June 30, 2017

**NOTES TO SCHEDULE**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Social Security – Disability Insurance Program for the Mississippi Department of Rehabilitation Services (the "Department") for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Department.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Indirect Cost Rate**

The Department has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**REPORT ON COMPLIANCE FOR A FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE WHEN USING THE PROGRAM-SPECIFIC AUDIT OPTION TO SATISFY THE UNIFORM GUIDANCE AUDIT REQUIREMENTS**

**INDEPENDENT AUDITOR'S REPORT**

Mississippi Department of  
Rehabilitation Services  
Madison, Mississippi

**Report on Compliance for the Social Security – Disability Insurance Program**

We have audited Mississippi Department of Rehabilitation Services' (the "Department") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its Social Security – Disability Insurance Program for the year ended June 30, 2017.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to the Social Security – Disability Insurance Program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Department's Social Security – Disability Insurance 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 Social Security – Disability Insurance Program 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 Social Security – Disability Insurance Program. However, our audit does not provide a legal determination of the Department's compliance.

**Opinion on Compliance for the Department's Social Security – Disability Insurance Program**

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 its Social Security – Disability Insurance Program for the year ended June 30, 2017.

## Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-023 and 2017-024. Our opinion on the Department's Social Security – Disability Insurance Program is not modified with respect to these matters.

The Department's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## 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 its Social Security – Disability Insurance Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its Social Security – Disability Insurance Program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Ridgeland, Mississippi  
February 8, 2018



**MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES**  
Schedule of Findings and Questioned Costs  
June 30, 2017

**Section I – Summary of Auditor's Results**

**Financial Statements:**

- |    |   |               |
|----|---|---------------|
| 1. | Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP | Unmodified    |
| 2. | Internal control over financial reporting:  |               |
|    | a. Material weaknesses identified   | Yes           |
|    | b. Significant deficiencies identified  | None reported |
| 3. | Noncompliance material to financial statements noted  | No            |

**Federal Awards:**

- |    |   |               |
|----|---|---------------|
| 4. | Type of auditor's report issued on compliance for federal program   | Unmodified    |
| 5. | Internal control over the federal program:  |               |
|    | a. Material weaknesses identified   | No            |
|    | b. Significant deficiencies identified  | None reported |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a) | Yes           |
| 7. | Identification of major programs:<br>Social Security – Disability Insurance                               | CFDA# 96.001  |

**Section II – Financial Statement Findings**

**Finding No. 2017-022**

**Criteria:** Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.

**Condition:** Certain revenues totaling \$1,354,773 in General Fund 5334000000 were not recognized when they became measurable and available under the modified accrual basis of accounting.

**Cause:** The Department's accounting policies and procedures did not allow for these transactions to be applied to the appropriate period in accordance with the modified accrual basis of accounting.

**Effect:** A restatement of beginning fund balance for General Fund 5334000000 was required to correct the recognition of the revenues previously described. The effect of the accounting correction to General Fund 5334000000 reduced the previously reported fund deficit at July 1, 2016.

**Auditor's Recommendation:** Management should implement a process, whereby similar transactions are recorded in the appropriate period in accordance with the modified accrual basis of accounting.

**Views of Responsible Officials:** While the agency concurs that revenues totaling \$1,354,773 were not recorded on the Schedule of Expenditures of Federal Awards (SEFA), we do not agree this finding is material to the financial statements. This amount represents 2% of total expenditures in this fund, which is less than the 5% materiality threshold utilized by the Office of the State Auditor. In addition, since implementation of the new accounting system, MAGIC, in 2014, system reporting has proven burdensome. Internal controls will be strengthened to ensure revenue is properly recorded on future SEFA.

### **Section III – Findings and Questioned Costs for Federal Awards**

#### **Finding No. 2017-023**

##### **Information on the federal program:**

**CFDA# and title:** 96.001 Social Security – Disability Insurance Program

**Federal award identification number:** 1404MSD100, 1504MSD100, 1604MSD100, 1704MSD100

**Name of the federal agency:** Social Security Administration

**Name of the pass-through entity (if applicable):** N/A

**Criteria:** Per 20 CFR 404.1519s and 416.919s, each state is responsible for monitoring the Consultative Exam ("CE") process to ensure the accuracy, integrity and economy of the process. As part of the monitoring process, the Disability Determination Services ("DDS") must provide procedures for performing medical license verifications to ensure only qualified providers perform CEs for DDSs.

**Condition:** The Department is required to verify medical licenses, credentials and certifications with the state medical boards prior to using the services of any CE provider. The Department is also required to perform periodic license checks of CE providers. Records are to be kept on file by the Department for each qualified medical source performing CEs. Based on testing, it appears the Department failed to obtain license renewals for certain CE providers for fiscal year 2017.

**Cause:** Due to staff changes, certain records have not been maintained in an orderly manner. As a result, the Department did not have documentation of license renewals for certain CE providers.

**Effect:** For the year ended June 30, 2017, the Department used a vendor listing that included CE providers who had not been monitored by the Department for proper medical renewals. While we are not aware of any services provided by a debarred provider, the Department could have used the services of a CE provider who had been debarred.

**Questioned Costs:** \$0

**Context:** A sample of 20 CE providers was selected from a listing of 189 CE providers totaling \$4,895,012. Of the 20 CE providers tested, documentation of license verification could not be provided for two of the providers, which represented \$24,581 of the expenditure population. The sample was selected randomly. Therefore, it is not a statistically valid sample.

**Identification as a repeat finding, if applicable:** N/A

**Auditor's Recommendation:** We recommend the Department develop a plan to ensure that the proper documentation is obtained and maintained for each qualified CE provider.

**Views of responsible officials:** Management concurs with this finding. MDRS/DDS will take more concise steps to assure all required licensure remains up to date as part of the vendor's file. Updated licenses will be requested annually and become part of the file prior to the beginning of the fiscal year.

**Finding No. 2017-024**

**Information on the federal program:**

**CFDA# and title:** 96.001 Social Security – Disability Insurance Program

**Federal award identification number:** 1404MSD100, 1504MSD100, 1604MSD100, 1704MSD100

**Name of the federal agency:** Social Security Administration

**Name of the pass-through entity (if applicable):** N/A

**Criteria:** In accordance with 2 CFR Appendix V to Part 200, state and local governments claiming central service costs must develop a plan in accordance with the requirements described in Part 200. While certain governments must submit this plan annually, other governments are only required to submit their plans when they are specifically requested to do so by the cognizant agency for indirect costs.

**Condition:** The Department's cognizant agency for indirect costs approved a cost allocation plan for the Department dated July 1, 2008. The cost allocation plan is to remain in effect until a revision is necessary. The cost allocation plan requires a yearly certification from the Department to ensure changes have not been made to the cost allocation plan. This yearly certification should be submitted not later than 30 days after the end of the fiscal year. However, the Department failed to file the yearly certification with their cognizant agency for indirect costs for fiscal year 2017.

**Cause:** Management did not identify the requirement to file a yearly certification form.

**Effect:** At June 30, 2017, the Department was not in compliance with the requirement to file a yearly certification as required by the Department's cognizant agency for indirect costs. While nothing came to our attention during testing that suggested a revision to the cost allocation plan is necessary or that costs were allocated in a manner inconsistent with the approved cost allocation plan, the Department could be responsible for the repayment of grant funds used for indirect costs if the cognizant agency determines a modification to the cost allocation plan is necessary.

**Questioned Costs:** \$0

**Context:** The deficiency was identified when the cost allocation plan was obtained but the yearly certification could not be provided by management.

**Identification as a repeat finding, if applicable:** N/A

**Auditor's Recommendation:** We recommend the Department file the yearly certification with their cognizant agency as directed by the cost allocation plan.

**Views of responsible officials:** Management concurs with this finding. It should be noted that no changes have been made to constitute a revision to the cost allocation plan. A yearly certification will be filed with our cognizant agency from this point forward.

**MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES**  
Summary Schedule of Prior Audit Findings  
June 30, 2017

The prior year program specific audit disclosed no significant findings and no significant uncorrected or unresolved findings exist from prior program specific audits.

MISSISSIPPI DEPARTMENT OF REHABILITATION SERVICES

Corrective Action Plan

June 30, 2017

**Finding No. 2017-022**

**Finding:** Certain revenues totaling \$1,354,773 in General Fund 5334000000 were not recognized when they became measurable and available. A restatement of beginning fund balance for General Fund 5334000000 was required to correct the recognition of the revenues previously described. The effect of the accounting correction to General Fund 5334000000 reduced the previously reported fund deficit at July 1, 2016.

**Corrective Actions Taken or Planned:** The beginning fund balance for General Fund 5334000000 was restated to correct the recognition of the revenues totaling \$1,354,773. Internal controls will be strengthened to ensure revenue is properly recorded on future SEFA.

**Contact Person:** Liza Hammett, Chief Financial Officer

**Completion Date:** February 8, 2018

**Finding No. 2017-023**

**Finding:** The Department is required to verify medical licenses, credentials and certifications with the state medical boards prior to using the services of any CE provider. The Department is also required to perform periodic license checks of CE providers. Records are to be kept on file by the Department for each qualified medical source performing CEs. Based on testing, it appears the Department failed to obtain license renewals for certain CE providers for fiscal year 2017. Of the 20 CE providers tested, documentation of license verification could not be provided for two of the providers, which represented \$24,581 of the expenditure population.

**Corrective Actions Taken or Planned:** MDRS/DDS will take more concise steps to assure all required licensure remains up to date as part of the vendor's file. Updated licenses will be requested annually and become part of the file prior to the beginning of the fiscal year.

**Contact Person:** Liza Hammett, Chief Financial Officer

**Anticipated Completion Date:** June 30, 2018

**Finding No. 2017-024**

**Finding:** The Department's cognizant agency for indirect costs approved a cost allocation plan for the Department dated July 1, 2008. The cost allocation plan requires a yearly certification from the Department to ensure changes have not been made to the cost allocation plan. This yearly certification should be submitted not later than 30 days after the end of the fiscal year. However, the Department failed to file the yearly certification with their cognizant agency for indirect costs for fiscal year 2017.

**Corrective Actions Taken or Planned:** It should be noted that no changes have been made to constitute a revision to the cost allocation plan. A yearly certification will be filed with our cognizant agency from this point forward.

**Contact Person:** Liza Hammett, Chief Financial Officer

**Anticipated Completion Date:** June 30, 2018

ABILITYWORKS, INC.  
MADISON, MISSISSIPPI  
FINANCIAL REPORT  
JUNE 30, 2017

HARPER, RAINS, KNIGHT & COMPANY, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS  
RIDGELAND, MISSISSIPPI

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The Board of Directors  
AbilityWorks, Inc.  
Madison, Mississippi

### Independent Auditors' Report

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

We have audited the accompanying financial statements of AbilityWorks, Inc., a component unit of the State of Mississippi, as of and for the years ended June 30, 2017 and 2016, and the related notes to financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

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

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

#### ***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 auditors' 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 auditors consider 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.

**Certified Public Accountants • Consultants • [hrkepa.com](http://hrkepa.com)**

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***Auditors' Responsibility - continued***

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 referred to above present fairly, in all material respects, the financial position of AbilityWorks, Inc., a component unit of the State of Mississippi, as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise AbilityWorks, Inc.'s, a component unit of the State of Mississippi, basic financial statements. The supplementary information included in the accompanying schedules of cost of production, general and administrative expenses, and statistical analysis of operations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of cost of production, general and administrative expenses, and statistical analysis of operations are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

The Board of Directors  
AbilityWorks, Inc. - Continued

***Other Matters - continued***

America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of AbilityWorks, Inc.'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 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 AbilityWorks, Inc.'s internal control over financial reporting and compliance.

*Harper, Rainie, Knight & Company, P.A.*

December 14, 2017

ABILITYWORKS, INC.  
FINANCIAL REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the AbilityWorks, Inc. ("AbilityWorks") financial performance, providing an overview of the activities for the fiscal year ended June 30, 2017.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with AbilityWorks, Inc.'s basic financial statements.

Financial Highlights

- Total net position for AbilityWorks at year-end was reported at \$26,265,587, which was an increase of \$1,497,141, or 6%, from the prior fiscal year.
- Revenues for fiscal year 2017 decreased \$1,205,270, or 12%, from fiscal year 2016. The change in Revenue included the following: "production revenue" decreased \$731,714, "other operating revenue" decreased \$474,768, and "non-operating revenue" increased \$1,212.
- Total expenses decreased 8%, or \$1,223,104, from 2016 to 2017. "Cost of production" decreased \$407,392, "general and administrative expenses" decreased \$806,474, and "capital asset purchases" decreased \$9,238.
- Operating Transfers-in decreased \$806,474, or 11%.

Overview of the Financial Statements

Under GASB 34, the applicable accounting standard for governmental financial statements, there are three components to the basic financial statements: 1) the government-wide financial statements, 2) the fund financial statements and 3) the notes to the financial statements.

Government-wide Statements

AbilityWorks is classified as an enterprise fund and therefore utilizes the accrual method as its basis of accounting, which is the same as a private sector business. By utilizing the accrual method of accounting, the presentation of financial information in the government-wide statements and the fund financial statements would contain no differences. However, due to the fact that AbilityWorks is a component unit of the State of Mississippi, government-wide statements are not included herein, but will instead be included in the State of Mississippi's basic financial statements. AbilityWorks' financial statements will be presented in the State of Mississippi's government-wide statements under the "business type activities".

ABILITYWORKS, INC.  
FINANCIAL REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Fund Financial Statements

The financial statements for AbilityWorks report the financial activity for all sixteen locations making up AbilityWorks. As an enterprise fund, these facilities charge customers for services provided, whether to outside customers or to other agencies within the State. The method of accounting used by AbilityWorks is the accrual method of accounting, which is the same used by private sector businesses, in that revenues are recognized when earned and expenses are recognized when incurred. Included in the fund financial statements are the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows using the direct method. No other "required supplementary information" is presented. In addition, supplementary information is presented regarding cost of production, general and administrative expenses and certain statistical information.

Financial Analysis

AbilityWorks' net position increased \$1,497,141, or 6%, over the course of this fiscal year's operations.

Table 1  
Balance Sheets  
June 30, 2017 and 2016

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 30,065,913	\$ 28,485,085
Current and other liabilities	<u>3,800,326</u>	<u>3,716,639</u>
Net position:		
Unrestricted	<u>\$ 26,265,587</u>	<u>\$ 24,768,446</u>

ABILITYWORKS, INC.  
FINANCIAL REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis - continued

- "Current and other assets" increased \$1,580,829 or 5.6%. Of this amount:
  - "Cash" increased \$479,300 (approximately 3% from the previous year).
  - "Investments" increased \$494.
  - The "Accounts receivables, net" account decreased \$178,742, or 6.2%. Loss of contracts at several locations contributes to this decrease.
  - The "Unbilled receivables" account, which involved the Medicaid Waiver for payroll processing services, decreased \$113,792. The amount represents the payroll generated for those hours earned by personal care attendants prior to June 30<sup>th</sup>, however, the services were not invoiced to the parent agency by the June 30<sup>th</sup> cut-off. The decrease in this account was due to invoices being submitted timelier. This is directly related to the increase in "Interfund receivables."
  - The "Interfund receivables" account increased by \$1,239,539. The majority of the Interfund receivables account relates to the Medicaid Waiver, which represents payroll items which have been generated for hourly wages earned by personal care attendants and job trainers and subsequently invoiced to the parent agency before June 30<sup>th</sup>, but were not paid by the parent agency by June 30<sup>th</sup>.
  - The "Inventories" account decreased \$4,299. This reduction is due to a decrease in the demand for products.
  - The "Prepaid Expenses" account increased by \$158,328, or 52% from 2016 to 2017. This increase can be attributed to a new liability insurance policy being obtained for the personal care attendants, which is in addition to the existing personal property insurance policy.
- "Current liabilities" increased \$83,687. Of this amount:
  - The "accounts payable" account decreased \$17,979.
  - The "accrued expenses" account increased \$101,666. The balance in this account represents the hours earned by the personal care attendants from the period June 16 - 30, 2017 and subsequently paid in July 2017.

ABILITYWORKS, INC.  
FINANCIAL REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Table 2  
Statement of Revenue,  
Expenditures and Changes in Fund Balance  
For the Years Ended June 30, 2017 and 2016

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Revenues		
Operating revenues		
Revenue from production, net	\$ 7,455,908	\$ 8,187,622
Other operating income, net	1,367,547	1,842,315
Non-operating revenues		
Investment Income	<u>11,920</u>	<u>10,708</u>
Total revenues	<u>8,835,375</u>	<u>10,040,645</u>
Expenditures		
Cost of production	7,330,855	7,738,247
General and administrative	6,587,879	7,394,353
Capital asset purchases	<u>7,379</u>	<u>16,617</u>
Total expenditures	<u>13,926,113</u>	<u>15,149,217</u>
Transfers		
Transfers-in	<u>6,587,879</u>	<u>7,394,353</u>
Total transfers (net)	<u>6,587,879</u>	<u>7,394,353</u>
Increase in net position	1,497,141	2,285,781
Net assets – beginning of year	<u>24,768,446</u>	<u>22,482,665</u>
Net assets – ending	<u>\$ 26,265,587</u>	<u>\$ 24,768,446</u>

ABILITYWORKS, INC.  
FINANCIAL REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis - continued

- AbilityWorks consists of community rehabilitation programs in sixteen (16) separate locations which provide a fee for service to production and manufacturing industries within each workshop's area. Ten (10) of the sixteen (16) locations represented over 82% of the production revenue recorded in 2017. These facilities are as follows: Monroe County, Corinth, Oxford, Tupelo, Washington County, Greenwood, Starkville, Jackson, Laurel, and Hattiesburg. The decrease in production revenue was due to the loss of contracts experienced by some of the facilities throughout the state. In addition, a modification (decrease) in Source America contracts occurred in Harrison County and Jackson, which also contributed to the decrease in production revenue.
- The decrease in the "cost of production" correlates to the decrease in the "revenue from production". Loss of contracts at several locations attributes to this decrease. As production revenue decreases, the cost of production decreases.
- The majority of the "other operating income, net" account is reported by our Medicaid Waiver payroll processing services. The decrease reported in this revenue account was \$474,768 and is mainly due to a slight decline in the number of persons served and therefore, the decline in the number of personal care attendants on the payroll.
- The "general and administrative expenses" represent those costs associated with office personnel of the AbilityWorks system, including facility managers, office managers, production managers, evaluators, instructors and administrative assistants, as well as reimbursements to the facilities for client transportation and community based services. The majority of general and administrative expenses represent salaries and wages (over 80%). In fiscal year 2016, the Philadelphia AbilityWorks location was permanently closed, which contributes to the decrease in the account balance from prior year. Also, the Subsidies, Loans, and Grants portion included in the total "general and administrative expenses" balances decreased due to a decrease in the number of clients being served from the prior year, thus reducing funding spent on client transportation and community based services. The aforementioned factors predicate an 11% decrease in general and administrative expenditures from the prior year.
- The "Capital asset purchases" account in 2017 was \$7,379, which decreased \$9,238. The reason for the decrease was due to purchases made in 2016 that were not required in 2017. For FY 2017, purchases included one Case Sealing Machine (\$3,983), one Burnisher (\$1,100), and two Tillers (\$598).
- There was a 10.9% decrease in the "transfers-in" account, which is related to the increase in the "interfund receivable" account on the balance sheet.

ABILITYWORKS, INC.  
FINANCIAL REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Economic Factors

Mississippi has experienced a steady decrease in the number of jobs in the manufacturing sector over the last decade. While some manufacturing job gains have occurred, statewide manufacturing jobs continues to be stagnant. The loss of manufacturing jobs is a direct reflection of the number of manufacturing businesses that closed down their operations in Mississippi. The production income generated by each AbilityWorks' facility is tied to the availability of subcontract work obtained from manufacturing businesses in the local community. Since manufacturing contracts have been declining in recent years, the AbilityWorks' system has been intentionally expanding production income from service sector contracts. These service contracts include janitorial, housekeeping, and ground maintenance.

Additionally, OVR leadership has incorporated a community based program within the AbilityWorks system. This program, LINC'S (Linking Innovative Networks of Community Services), provides vocational evaluation and job readiness opportunities outside the boundaries of the facility and places clients directly in local businesses. Once the clients' vocational interests are obtained, the facility staff seeks businesses that offer those specific skill opportunities and contracts with them directly to help train our clients. This is a winning scenario for businesses, clients and AbilityWorks.

The AbilityWorks, Inc. system anticipates additional capital asset purchases in fiscal year 2017 in the following areas:

- To ensure the viability of the AbilityWorks, Inc. system, we continue to work with local businesses to develop additional contract work. In order to add new contracts throughout the state, we anticipate purchases of new or additional production related equipment, such as fork-lifts, delivery trucks, flat bed trucks, planer/molder woodworking machinery, hot melt machine, air line compressor system, etc.
- The purchase of three passenger vans for client transportation is anticipated for two AbilityWorks locations: Greenwood and Gulfport.
- The purchase of one 40-ton AC unit for Hattiesburg.

Financial Contact

AbilityWorks' financial statements are designed to present users with a general overview of AbilityWorks' finances and to demonstrate its accountability. If you have any questions about the report or need additional information, contact the Director of Finance at the Mississippi Department of Rehabilitation Services, 1281 Highway 51 North, Madison, Mississippi 39110.



ABILITYWORKS, INC.

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets		
Cash	\$ 14,439,752	\$ 13,960,452
Investments	167,567	167,073
Accounts receivable, net	923,026	1,101,768
Unbilled receivables	2,402,777	2,516,569
Interfund receivable	11,503,451	10,263,912
Inventories	164,887	169,186
Prepaid expenses and other	<u>464,453</u>	<u>306,125</u>
 Total assets	 <u>\$ 30,065,913</u>	 <u>\$ 28,485,085</u>

LIABILITIES AND NET POSITION

Current liabilities		
Accounts payable	\$ 255,363	\$ 273,342
Accrued expenses	<u>3,544,963</u>	<u>3,443,297</u>
Total current liabilities	3,800,326	3,716,639
 Net position - unrestricted	 <u>26,265,587</u>	 <u>24,768,446</u>
 Total liabilities and net position	 <u>\$ 30,065,913</u>	 <u>\$ 28,485,085</u>

The Notes to Financial Statements are an integral part of these statements.

ABILITYWORKS, INC.

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue		
Revenue from production, net	\$ 7,455,908	\$ 8,187,622
Cost of production	<u>7,330,855</u>	<u>7,738,247</u>
Gross profit	125,053	449,375
 Other operating income	 1,367,547	 1,842,315
General and administrative expenses	<u>6,587,879</u>	<u>7,394,353</u>
Operating loss	(5,095,279)	(5,102,663)
 Non-operating revenue (expenses)		
Investment income	11,920	10,708
Capital asset purchases	<u>(7,379)</u>	<u>(16,617)</u>
Total non-operating revenue (expenses)	<u>4,541</u>	<u>(5,909)</u>
 Loss before transfers	 (5,090,738)	 (5,108,572)
Transfers-in	<u>6,587,879</u>	<u>7,394,353</u>
 Increase in net position	 1,497,141	 2,285,781
Net position, beginning of year	<u>24,768,446</u>	<u>22,482,665</u>
Net position, end of year	<u>\$ 26,265,587</u>	<u>\$ 24,768,446</u>

The Notes to Financial Statements are an integral part of these statements.

ABILITYWORKS, INC.

STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Receipts from customers	\$ 7,627,130	\$ 8,338,076
Receipts from DRS for payroll processing	59,291,932	59,352,555
Other operating receipts	235,134	297,252
Payments to suppliers	(2,385,844)	(3,712,850)
Payments to employees	(10,486,853)	(11,148,947)
Payments for payroll processing	<u>(60,394,125)</u>	<u>(60,623,764)</u>
Net cash used by operating activities	<u>(6,112,626)</u>	<u>(7,497,678)</u>
Cash flows from non-capital financing activities:		
Transfers-in	<u>6,587,879</u>	<u>7,394,353</u>
Net cash provided by non-capital financing activities	<u>6,587,879</u>	<u>7,394,353</u>
Cash flows from investing activities:		
Investment income	11,920	10,708
Sale and maturity of investments	167,073	166,460
Investment purchases	(167,567)	(167,073)
Capital asset purchases	<u>(7,379)</u>	<u>(16,617)</u>
Net cash provided by (used in) investing activities	<u>4,047</u>	<u>(6,522)</u>
Net increase (decrease) in cash	479,300	(109,847)
Cash at beginning of year	<u>13,960,452</u>	<u>14,070,299</u>
Cash at end of year	<u>\$ 14,439,752</u>	<u>\$ 13,960,452</u>

The Notes to Financial Statements are an integral part of these statements.

ABILITYWORKS, INC.

STATEMENTS OF CASH FLOWS - Continued  
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (5,095,279)	\$ (5,102,663)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Net effect of changes in assets and liabilities:		
Accounts receivable	178,742	115,030
Unbilled receivables	113,792	(46,873)
Interfund receivables	(1,239,539)	(2,769,845)
Inventories	4,299	25,826
Prepaid expenses and other	(158,328)	(30,292)
Accounts payable	(17,979)	(34,964)
Accrued expenses	<u>101,666</u>	<u>346,103</u>
Net cash used by operating activities	<u>\$ (6,112,626)</u>	<u>\$ (7,497,678)</u>

The Notes to Financial Statements are an integral part of these statements.

## NOTES TO FINANCIAL STATEMENTS

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of AbilityWorks, Inc., (hereafter referred to as "AbilityWorks"), a component unit of the State of Mississippi, have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The more significant of AbilityWorks' accounting policies follow.

#### Organization and Nature of Operations

AbilityWorks is a non-profit corporation owned and operated by the State of Mississippi, Department of Rehabilitation Services, Office of Vocational Rehabilitation (the "Division"). AbilityWorks was incorporated on July 18, 1969 with the granting of a charter by the State of Mississippi. Legal authority for AbilityWorks is granted under Section 37-33-101 of the Mississippi Code of 1972. AbilityWorks' purpose is to operate a statewide system of community rehabilitation programs through which citizens with disabilities receive work experience to prepare them for employment outside the workshop setting.

Currently, sixteen (16) AbilityWorks facilities are located in communities throughout Mississippi. AbilityWorks of Monroe County was permanently closed on June 30, 2017. These facilities provide work settings with realistic job stations where vocational evaluation, work adjustment, counseling, guidance and other services are provided. The Division funds some of the general and administrative expenses, such as staff payroll, rent, utilities, etc. The Division also provides all management necessary to administer AbilityWorks at no cost. Also, the Division transfers funds to the facilities on a monthly basis for additional expenses incurred as a result of expanded client services, such as maintenance to clients and incentive allowances.

#### Basis of Presentation

Basic financial statements include government-wide financial statements, fund financial statements and notes to the financial statements. Since AbilityWorks is a component unit of the State of Mississippi, it only presents fund financial statements. AbilityWorks continues to report as a business-type enterprise fund.

#### Basis of Accounting

The accounts of AbilityWorks are reported using the accrual basis of accounting and the economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Revenue from production and payroll processing income are stated net of provision for bad debt expense (recoveries) of \$(3,021) in 2017 and \$7,455 in 2016.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories

Finished goods inventories are stated at the lower of manufacturing cost (first-in, first-out) or market (net realizable value). Purchased raw materials and supplies are stated at the lower of cost (first-in, first-out) or replacement market.

Revenue Recognition

Production revenue is recognized when the goods are shipped, or the services performed.

Operating/Non-operating Income

AbilityWorks has classified its revenue as either operating or non-operating revenues according to the following criteria:

Operating revenues - Operating revenues generally result from community rehabilitation programs in sixteen (16) separate locations which provide a fee for service to production and manufacturing industries within each workshop's area. Other operating income consists of net income for processing payroll under the Medicaid Waiver program.

Non-operating revenues – Non-operating revenues are those revenues that do not meet the definition of operating revenues. Non-operating revenues include investment income.

Interfund/Intrafund Transactions

Interfund represents transactions with a fund outside of AbilityWorks, while intrafund represents transactions within AbilityWorks. Interfund/intrafund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon combination. Services provided are treated as revenues and expenditures/expenses.

Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related expense as a reimbursement. All other interfund/intrafund transactions are treated as transfers. Intrafund balances have been eliminated and are not reflected in the basic financial statements.

Capital Asset Purchases

Property and equipment purchased directly by the facilities are the property of the State of Mississippi. These acquisition costs are classified as a non-operating expense.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

AbilityWorks is exempt from federal and state income taxes.

Investments

Investments consist of certificates of deposit which are carried at cost which approximates fair value.

Other

AbilityWorks provides transportation and maintenance funds to clients of the Department of Rehabilitation Services based on the orders of client counselors. The clients are not necessarily those employed by AbilityWorks. The amounts provided, \$12,601 in 2017 and \$32,266 in 2016, have been fully reimbursed by the State of Mississippi. The funds provided do not represent income or expenses of AbilityWorks and have not been recorded in the financial statements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash includes all checking and savings accounts. AbilityWorks has no cash equivalents.

Employee Benefits

Employees of AbilityWorks, who are eligible for employee benefits, are considered employees of and are provided employee benefits through the State of Mississippi. The employees are covered by the State of Mississippi Public Employee Retirement System ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the Mississippi State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. Disclosures regarding employee benefits are maintained and communicated within the State of Mississippi financial reports.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Employee Benefits - continued

Employee benefit expenses are allocated to AbilityWorks through state-paid expenditure transactions and are reported within the general and administrative expenses and cost of production schedules.

Subsequent Events

Subsequent events were evaluated by AbilityWorks through December 14, 2017, which is the date the financial statements were available to be issued.

(2) CONCENTRATIONS OF CREDIT AND OTHER RISKS

Financial instruments that potentially subject AbilityWorks to concentrations of credit risk consist of cash and cash equivalents, accounts receivable and loss of financial assistance from the State of Mississippi. AbilityWorks receives substantial support in the form of financial assistance from the State of Mississippi, the loss of which could have a material effect on the continuation of operations. Accounts receivable are due from customers in numerous industries within the State of Mississippi. Each facility monitors the credit worthiness of its customers to limit credit risk.

AbilityWorks maintains cash balances at various financial institutions. Accounts at each institution are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). Amounts in excess of \$250,000 are collateralized by certain assets pledged by the financial institution's trust department in AbilityWorks' name. In addition, AbilityWorks has minimized credit risk by depositing cash and cash equivalents in banks with a high credit standing. AbilityWorks has not experienced any losses of such funds and management believes exposure to significant credit risk on cash and cash equivalents is minimal.

(3) INVESTMENTS

Investments at June 30, 2017 consisted of a certificate of deposit totaling \$167,567 which matures in February 2018. Investments at June 30, 2016 consisted of a certificate of deposit totaling \$167,073 which matured in February 2016. Interest earned on investments and cash balances for the years ended June 30, 2017 and 2016 was \$11,920 and \$10,708, respectively.

(4) ACCOUNTS RECEIVABLE

A summary of accounts receivable follows:

	<u>2017</u>	<u>2016</u>
Trade receivable	\$ 923,026	\$ 1,109,223
Less allowance for doubtful accounts	<u>-</u>	<u>(7,455)</u>
Accounts receivable, net	<u>\$ 923,026</u>	<u>\$ 1,101,768</u>



(5) UNBILLED RECEIVABLES

Unbilled receivables are the total amounts for payroll processing services rendered but not yet invoiced, related to the Medicaid Waiver program. Unbilled receivables totaled \$2,402,777 in 2017 and \$2,516,569 in 2016.

(6) INTERFUND RECEIVABLES

Interfund receivables/payables related to payroll processing and other services provided to the agencies of the State of Mississippi consist of the following:

	<u>2017</u>	<u>2016</u>
Interfund receivables/payables		
Department of Rehabilitation Services		
Office of Special Disability Programs	\$ 8,897,744	\$ 7,266,339
Spinal Cord Trauma Brain Injury	3,601,195	2,909,166
Office of Vocational Rehabilitation	81,865	84,169
Rehabilitation Services	(1,100,000)	-
Mississippi Department of Transportation	390	2,204
University of Mississippi Medical Center	11,573	1,233
Mississippi Department of Human Services	7,240	801
Mississippi Department of Marine Resources	<u>3,444</u>	<u>-</u>
	<u>\$11,503,451</u>	<u>\$10,263,912</u>

(7) INVENTORIES

A summary of inventories follows:

	<u>2017</u>	<u>2016</u>
Finished goods	\$ 66,984	\$ 63,174
Raw materials and supplies	<u>97,903</u>	<u>106,012</u>
Total inventories	<u>\$ 164,887</u>	<u>\$ 169,186</u>

(8) OTHER OPERATING INCOME, NET

A summary of other operating income, net, follows:

	<u>2017</u>	<u>2016</u>
Payroll processing income, net	\$ 61,510,157	\$ 62,204,697
Payroll processing expense	(60,377,745)	(60,659,633)
Other income	<u>235,135</u>	<u>297,251</u>
Other operating income, net	<u>\$ 1,367,547</u>	<u>\$ 1,842,315</u>

(9) RELATED PARTY TRANSACTIONS

Net transfers-in of \$6,587,879 in 2017 and \$7,394,353 in 2016 represent general and administrative expenses paid on behalf of the AbilityWorks' facilities by the State of Mississippi Department of Rehabilitation Services. Transfers-in are from sources as follows:

	<u>2017</u>	<u>2016</u>
MDRS - general and administrative expenses	<u>\$ 6,587,879</u>	<u>\$ 7,394,353</u>
Total operating transfers-in	<u>\$ 6,587,879</u>	<u>\$ 7,394,353</u>

Interfund receivables/payables include related party transactions for payroll processing from the Mississippi Department of Rehabilitation Services in the amount of \$11,480,804 in 2017 and \$10,259,674 in 2016.

(10) FACILITIES

Production facilities utilized by seven (7) AbilityWorks locations are provided without rent by the counties in which the facilities are located. The other nine (9) facilities reported rent expense of \$410,463 in 2017 and \$401,853 in 2016 under cancellable operating leases. During fiscal years 2017 and 2016, AbilityWorks offset a portion of the rent expense by charging state agencies which occupied space in the facilities an allocated portion of the related rent expense. The amount charged and offset against rent expense was \$206,824 in 2017 and \$209,810 in 2016.

ABILITYWORKS, INC.

SCHEDULES OF COST OF PRODUCTION

Years Ended June 30, 2017 and 2016

	2017	2016
Bank charges	\$ 12,468	\$ 16,392
Commissions	143,865	151,007
Employee benefits	882,807	1,027,081
Equipment rent and maintenance	196,338	209,499
Facility repairs and maintenance	149,563	104,764
General shop and tools	66,056	51,898
Marketing	28,957	42,631
Miscellaneous	174,519	119,037
Opportunity wages production	1,187,107	1,779,377
Other administrative expenses	54,199	15,441
Professional fees	323,765	243,906
Rent	203,639	192,043
Salaries, non-client employees	2,767,980	2,611,079
Supplies	997,935	1,026,522
Uniforms	31,279	31,162
Vehicle expense	110,378	116,408
	<u>          </u>	<u>          </u>
Total cost of production	\$ 7,330,855	\$ 7,738,247

See Independent Auditors' Report.

ABILITYWORKS, INC.

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

Years Ended June 30, 2017 and 2016

	2017	2016
Client transportation	\$ 340,865	\$ 484,160
Commodities	33,062	51,587
Community-based	195,397	803,409
Contractual services	566,019	421,473
Equipment	1,813	-
Salaries and related expenses	5,437,890	5,564,593
Subsidy - opportunity wages	7,679	60,376
Travel	5,154	8,755
	<u>5,154</u>	<u>8,755</u>
Total general and administrative expenses	\$ <u>6,587,879</u>	\$ <u>7,394,353</u>

See Independent Auditors' Report.

ABILITYWORKS, INC.

SCHEDULE OF STATISTICAL ANALYSIS OF OPERATIONS

Year Ended June 30, 2017

(Unaudited)

	Total per the Statement of Revenues, Expenses and Changes in Net Assets	Total Cost of Operations for Year in Relation to	
		Clients Served	Client Days
Cost of production	\$ 7,330,855	\$ 5,077	\$ 157
General and administrative expenses	6,587,879	4,562	141
Total operating cost	13,918,734	9,639	298
Less revenue and other operating income	7,691,043	5,326	164
Total operating cost, net of revenue and other operating revenue	6,227,691	4,313	134
Non-operating (revenue) expense	(4,541)	(3)	-
Total operating cost after non-operating (revenue) expense *	<u>\$ 6,223,150</u>	<u>\$ 4,310</u>	<u>\$ 134</u>
Totals for the year ended June 30, 2017:			
Clients served	1,444		
Client days	46,800		
Average daily attendance	192		
Average length of stay	Client days	32	
per client in days	Clients served		

\* Total operating cost after non-operating expense does not include payroll processing income and payroll processing expenses. These items are not related to clients served and employed data and are appropriately not included in the above analysis.

See Independent Auditors' Report.

ABILITYWORKS, INC.

SCHEDULE OF STATISTICAL ANALYSIS OF OPERATIONS

Year Ended June 30, 2016

(Unaudited)

	Total per the Statement of Revenues, Expenses and Changes in Net Assets	Total Cost of Operations for Year in Relation to	
		Clients Served	Client Days
Cost of production	\$ 7,738,247	\$ 3,898	\$ 95
General and administrative expenses	7,394,353	3,725	91
Total operating cost	15,132,600	7,623	186
Less revenue and other operating income	8,484,874	4,274	104
Total operating cost, net of revenue and other operating revenue	6,647,726	3,349	82
Non-operating (revenue) expense	5,909	3	-
Total operating cost after non-operating (revenue) expense *	<u>\$ 6,653,635</u>	<u>\$ 3,352</u>	<u>\$ 82</u>
Totals for the year ended June 30, 2016:			
Clients served	1,985		
Client days	81,252		
Average daily attendance	326		
Average length of stay	Client days	41	
per client in days	Clients served		

\* Total operating cost after non-operating expense does not include payroll processing income and payroll processing expenses. These items are not related to clients served and employed data and are appropriately not included in the above analysis.

See Independent Auditors' Report.



The Board of Directors  
AbilityWorks, Inc.  
Madison, Mississippi

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*

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 basic financial statements of AbilityWorks, Inc., a component unit of the State of Mississippi, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise AbilityWorks, Inc.'s, a component unit of the State of Mississippi, basic financial statements, and have issued our report thereon dated December 14, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered AbilityWorks, Inc.'s, a component unit of the State of Mississippi, 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 internal control. Accordingly, we do not express an opinion on the effectiveness of AbilityWorks, Inc.'s, a component unit of the State of Mississippi, internal control.

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.

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

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### **Internal Control Over Financial Reporting - continued**

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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether AbilityWorks, Inc.'s, a component unit of the State of Mississippi, basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance 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 is not to provide an opinion on the effectiveness of internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AbilityWorks, Inc.'s, a component unit of the State of Mississippi, internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Harper, Rainie, Knight & Company, P.A.*

December 14, 2017