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Mississippi Department of Employment Security

Schedule of Changes in Accrued Compensated Absences

June 30, 2016



Mississippi Department of Employment Security
Schedule of Changes in Accrued Compensated Absences
June 30, 2016

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Independent Auditor's Report

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

Report on the Schedule

We have audited the accompanying schedule of changes in accrued compensated absences of the Mississippi Department of Employment Security (MDES) for the year ended June 30, 2016, and the related notes to the schedule.

Management's Responsibility for the Schedule

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the schedule of changes in accrued compensated absences referred to above presents fairly, in all material respects, the changes in accrued compensated absences of MDES as of June 30, 2016, 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 a report dated January 27, 2017, on our consideration of MDES' internal control over the reporting of the schedule of changes in accrued compensated absences and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the reporting of the schedule of changes in accrued compensated absences and compliance and the results of that testing, and not to provide an opinion on internal control over the reporting of the schedule of changes in accrued compensated absences or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering MDES' internal control over the reporting of the schedule of changes in accrued compensated absences and compliance.

BKD, LLP

Jackson, Mississippi
January 27, 2017

Mississippi Department of Employment Security
Schedule of Changes in Accrued Compensated Absences
Year Ended June 30, 2016

Accrued Compensated Absences

Beginning balance	\$ 1,844,601
Additions	967,459
Deletions	<u>(1,035,449)</u>
Ending balance	<u><u>\$ 1,776,611</u></u>

Mississippi Department of Employment Security
Notes to Schedule of Changes in Accrued Compensated Absences
June 30, 2016

Note 1: Basis of Presentation

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

Note 2: Accrued Compensated Absences

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the schedule of changes in accrued compensated absences for the Mississippi Department of Employment Security (MDES) for the year ended June 30, 2016, and the related notes to the schedule of changes in accrued compensated absences and have issued our report thereon dated January 27, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MDES' schedule of changes in accrued compensated absences will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses 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

As part of obtaining reasonable assurance about whether MDES' schedule of changes in accrued compensated absences is free of material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of Report

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

BKD, LLP

Jackson, Mississippi
January 27, 2017



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Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Independent Auditor's Reports and Financial Statements

June 30, 2016



Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

June 30, 2016

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying basic financial statements of the Special Revenue Fund – Fund 3671 of the Mississippi Department of Employment Security (MDES), which are comprised of a balance sheet as of June 30, 2016, and a statement of revenues, expenditures and changes in fund balance and the related notes to the financial statements for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Special Revenue Fund – Fund 3671 of MDES as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, the financial statements present only the Special Revenue Fund – Fund 3671 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2016, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, on our consideration of MDES' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
January 27, 2017

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Balance Sheet

June 30, 2016

Assets

Cash with state treasury	\$ 5,927,146
Receivables	2,201,618
Due from other governments	4,452,432
Due from other state funds	1,403,941
Due from subrecipients	11,138
Other	<u>1,000</u>
Total assets	<u><u>\$ 13,997,275</u></u>

Liabilities and Fund Balance

Liabilities

Warrants payable	\$ 193,074
Accounts payable and accrued expenditures	3,422,478
Due to other governments	741,120
Due to other state funds	86,618
Due to subrecipients	2,821,046
Unearned revenue	<u>1,351,004</u>
Total liabilities	<u>8,615,340</u>

Fund Balance

Restricted for unemployment insurance program	<u>5,381,935</u>
Total liabilities and fund balance	<u><u>\$ 13,997,275</u></u>

Mississippi Department of Employment Security
Special Revenue Fund – Fund 3671
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2016

Revenues

Federal government	\$ 69,928,282
Contractual services	15,895,164
Charges for sales and services	406,556
Transfers in from other state funds	736,934
Other	<u>58</u>
Total revenues	<u>86,966,994</u>

Expenditures

Current	
Health and social services	87,197,832
Capital outlay	14,287
Transfers out to other state funds	37,442
Other service charges	<u>455</u>
Total expenditures	<u>87,250,016</u>

Net Decrease in Fund Balance	(283,022)
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Fund Balance - Beginning of Year	<u>5,664,957</u>
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Fund Balance - End of Year	<u><u>\$ 5,381,935</u></u>
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Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2016

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

Nature of Operations and Reporting Entity

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

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

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

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

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

Basis of Presentation

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

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

These financial statements present only Fund 3671 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2016, or the changes in its financial position for the

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2016

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

Basis of Accounting

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

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

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

Use of Estimates

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

Accounts Receivable

Accounts receivable represent amounts due to MDES from various entities. MDES provides an allowance for uncollectible accounts, when necessary, based upon a review of outstanding receivables, historical collection information and existing economic conditions. As of June 30, 2016, no allowance was considered necessary.

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2016

Risk Management

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

Activity with Other State Funds

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

Balances with Other State Funds

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

Unearned Revenues

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

Fund Balance

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

Federal Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period (within 60 days after year-

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2016

end). Federal reimbursement type grants are recorded as revenues when the related expenditures are incurred. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Note 2: Deposits

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the state's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

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

Information regarding the collateralization of deposits held by this pool at June 30, 2016, will be presented in the State of Mississippi CAFR for the year ended June 30, 2016.

At June 30, 2016, none of the fund's deposits were exposed to custodial credit risk.

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2016

Note 3: Transactions with Other State Funds

At June 30, 2016, receivables and payables from other state funds, including other MDES funds, consisted of:

	<u>Receivables</u>	<u>Payables</u>
Governmental funds		
General fund	\$ 302,267	\$ 1,969
Internal service funds	-	84,649
Proprietary funds	<u>1,101,674</u>	<u>-</u>
	<u>\$ 1,403,941</u>	<u>\$ 86,618</u>

At June 30, 2016, transfers with other state funds, including other MDES funds, consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds		
Nonmajor governmental funds	<u>\$ 736,934</u>	<u>\$ 37,442</u>

Note 4: Defined Benefit Pension Plan

MDES contributes to the Public Employees' Retirement System of Mississippi (PERS), which is a cost-sharing, multiple-employer defined benefit public employee pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling 601.359.3589 or 1.800.444.PERS.

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

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2016

PERS for the years ended June 30, 2016, 2015 and 2014, equaled the required contributions and are summarized as follows, rounded to the near thousand:

	MDES	Employee
2016	\$ 2,916,000	\$ 1,661,000
2015	3,027,000	1,725,000
2014	3,166,000	1,805,000

Note 5: Commitments

MDES has entered into several leases for office space. Rent expense associated with these leases totaled approximately \$2,591,000 for the year ended June 30, 2016. Future minimum lease payments at June 30, 2016, were approximately:

2017	\$ 1,975,000
2018	1,024,000
2019	292,000
2020	146,000
	<hr/>
	\$ 3,437,000

Note 6: Significant Estimates and Concentrations

Economic Dependency

MDES is economically dependent on grant funds received from the federal government to provide for its overall administration, the payment of certain unemployment benefits and the administration and funding of the Workforce Investment Act and other such programs for the State of Mississippi. During fiscal year 2016, 80% of MDES' Fund 3671 revenues were provided directly by the federal government.

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3671

Notes to Financial Statements

June 30, 2016

Note 7: Commitments and Contingencies

Government Grants

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Special Revenue Fund – Fund 3671 of the Mississippi Department of Employment Security (MDES), which comprise the balance sheet as of June 30, 2016, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 27, 2017, which contained an “emphasis of matter” paragraph regarding the reporting entity.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses 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 as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matter

As part of obtaining reasonable assurance about whether MDES' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to MDES' management in a separate letter dated January 27, 2017.

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
January 27, 2017



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Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Independent Auditor's Reports and Financial Statements

June 30, 2016



Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

June 30, 2016

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying basic financial statements of the Special Revenue Fund – Fund 3678 of the Mississippi Department of Employment Security (MDES), which are comprised of a balance sheet as of June 30, 2016, and a statement of revenues, expenditures and changes in fund balance and the related notes to the basic financial statements for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Special Revenue Fund – Fund 3678 of MDES as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, the financial statements present only the Special Revenue Fund – Fund 3678 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2016, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, on our consideration of MDES' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
January 27, 2017

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Balance Sheet

June 30, 2016

Assets

Cash with state treasury	\$ 466,335
Cash	10,298,503
Receivables, net	
Accounts	7,600,000
Assessments	<u>276,269</u>
Total assets	<u><u>\$ 18,641,107</u></u>

Liabilities and Fund Balance

Liabilities

Due to other state funds	<u>\$ 18,117,986</u>
Total liabilities	<u>18,117,986</u>

Fund Balance

Restricted for workforce enhancement training	<u>523,121</u>
Total liabilities and fund balance	<u><u>\$ 18,641,107</u></u>

Mississippi Department of Employment Security
Special Revenue Fund – Fund 3678
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2016

Revenues	
Assessments	\$ 27,142,246
Other	<u>8,124</u>
Total revenues	<u>27,150,370</u>
Expenditures	
Transfers to other state funds	<u>27,091,353</u>
Net Increase in Fund Balance	59,017
Fund Balance - Beginning of Year	<u>464,104</u>
Fund Balance - End of Year	<u><u>\$ 523,121</u></u>

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Notes to Financial Statements

June 30, 2016

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

Nature of Operations and Reporting Entity

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

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

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

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

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

Basis of Presentation

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

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

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Notes to Financial Statements

June 30, 2016

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

These financial statements present only Fund 3678 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2016, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

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

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

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

Use of Estimates

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

Accounts Receivable

MDES reports accounts receivable at net realizable amounts from employers. MDES provides an allowance for uncollectible accounts, when necessary, based upon a review of outstanding

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Notes to Financial Statements

June 30, 2016

receivables, historical collection information and existing economic conditions. As of June 30, 2016, the amount of the allowance was approximately \$645,000.

Risk Management

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

Activity with Other State Funds

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

Balances with Other State Funds

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

Fund Balance

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

Mississippi Department of Employment Security

Special Revenue Fund – Fund 3678

Notes to Financial Statements

June 30, 2016

Note 2: Deposits

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the State's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

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

Information regarding the collateralization of deposits held by this pool at June 30, 2016, will be presented in the State of Mississippi CAFR for the year ended June 30, 2016.

At June 30, 2016, none of the fund's deposits were exposed to custodial credit risk.

Note 3: Transactions with Other State Funds

At June 30, 2016, payables to other state funds, including other MDES funds, consisted of:

Governmental funds	
General fund	\$ 17,471,942
Proprietary funds	646,044
	<hr/>
	\$ 18,117,986
	<hr/>

At June 30, 2016, transfers to other state funds, consisted of:

	<u>Transfers Out</u>
Governmental funds	
Nonmajor governmental funds	\$ 27,091,353
	<hr/>

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Special Revenue Fund – Fund 3678 of the Mississippi Department of Employment Security (MDES), which comprise the balance sheet as of June 30, 2016, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 27, 2017, which contained an “emphasis of matter” paragraph regarding the reporting entity.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses 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 MDES' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to MDES' management in a separate letter dated January 27, 2017.

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
January 27, 2017



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Mississippi Department of Employment Security
Unemployment Compensation Fund – Fund 8191
Independent Auditor's Reports and Financial Statements
June 30, 2016



Mississippi Department of Employment Security
Unemployment Compensation Fund – Fund 8191
June 30, 2016

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying basic financial statements of the Unemployment Compensation Fund – Fund 8191 of the Mississippi Department of Employment Security (MDES), which are comprised of a statement of net position as of June 30, 2016, and statements of revenues, expenses and changes in net position and cash flows and the related notes to the basic financial statements as of and for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Unemployment Compensation Fund – Fund 8191 of MDES as of June 30, 2016, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, the financial statements present only the Unemployment Compensation Fund – Fund 8191 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2016, or the changes in its financial position or, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, on our consideration of MDES' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
January 27, 2017

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Statement of Net Position

June 30, 2016

Assets

Current Assets

Cash and cash equivalents	\$ 640,111,613
Receivables, net	
Accounts	16,060,521
Assessments	28,205,686
Due from other governments	422,665
Due from other state funds	420,850
Due from universities	117,296
	<hr/>
Total current assets	<u><u>\$ 685,338,631</u></u>

Liabilities and Net Position

Current Liabilities

Accounts payable and accrued liabilities	\$ 69,019
Due to other governments	9,245,240
Due to other state funds	2,172,995
Claims and benefits payable	6,082,412
	<hr/>
Total current liabilities	<u>17,569,666</u>

Net Position

Restricted for unemployment compensation benefits	<u>667,768,965</u>
Total liabilities and net position	<u><u>\$ 685,338,631</u></u>

Mississippi Department of Employment Security
Unemployment Compensation Fund – Fund 8191
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

Operating Revenues	
Assessments	\$ 107,658,210
Federal agencies	<u>3,138</u>
Total operating revenues	<u>107,661,348</u>
Operating Expenses	
Claims and benefits	<u>99,836,836</u>
Operating Income	7,824,512
Nonoperating Revenues	
Investment income	13,577,361
Transfers Out	<u>(51,177)</u>
Net Increase in Net Position	21,350,696
Net Position - Beginning of Year	<u>646,418,269</u>
Net Position - End of Year	<u><u>\$ 667,768,965</u></u>

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Statement of Cash Flows

Year Ended June 30, 2016

Operating Activities

Cash receipts from federal agencies	\$ 3,726
Cash receipts from assessments	120,761,391
Cash paid for claims and benefits	<u>(101,465,194)</u>
Net cash provided by operating activities	<u>19,299,923</u>

Noncapital Financing Activities

Transfers out	<u>(51,177)</u>
Net cash used in noncapital financing activities	<u>(51,177)</u>

Investing Activities

Investment income	<u>13,577,361</u>
Net cash provided by investing activities	<u>13,577,361</u>

Increase in Cash and Cash Equivalents 32,826,107

Cash and Cash Equivalents, Beginning of Year 607,285,506

Cash and Cash Equivalents, End of Year \$ 640,111,613

Reconciliation of Operating Income to Net Cash Provided by

Operating Activities

Operating income	\$ 7,824,512
Changes in assets and liabilities	
Receivables	13,103,897
Claims, benefits and accounts payable	(1,628,358)
Unearned revenue	<u>(128)</u>
Net cash provided by operating activities	<u><u>\$ 19,299,923</u></u>

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Notes to Financial Statements

June 30, 2016

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

Nature of Operations and Reporting Entity

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

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

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

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

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

Basis of Presentation

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

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

These financial statements present only Fund 8191 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2016, the changes in its financial position or, where

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Notes to Financial Statements

June 30, 2016

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

Basis of Accounting

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

MDES considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016, cash and cash equivalents consisted of demand deposits and U.S. Treasury deposits.

Accounts Receivable

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

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Notes to Financial Statements

June 30, 2016

historical collection information and existing economic conditions. As of June 30, 2016, the amount of the allowance was approximately \$66,000,000.

Risk Management

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

Activity with Other State Funds

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

Balances with Other State Funds

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

Claims and Benefits Payable

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

Net Position

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

Federal Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when all eligibility requirements are met, including any time requirements. Federal reimbursement type grants are recorded as revenues when the related expenses are recognized. Use

Mississippi Department of Employment Security
Unemployment Compensation Fund – Fund 8191
Notes to Financial Statements
June 30, 2016

of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Note 2: Deposits

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

Deposits in the "benefit payment account" are governed by Section 71-5-455, Miss. Code Ann. (1972), which provides that MDES shall be governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the state's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Deposits are included in the financial statements as follows:

Carrying value	
Trust fund - U.S. Treasury	\$ 627,945,435
Deposits	<u>12,166,178</u>
	<u><u>\$ 640,111,613</u></u>

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

At June 30, 2016, none of the fund's deposits were exposed to custodial credit risk.

Mississippi Department of Employment Security

Unemployment Compensation Fund – Fund 8191

Notes to Financial Statements

June 30, 2016

Note 3: Transactions with Other State Funds

At June 30, 2016, receivables and payables from other state funds, including other MDES funds, consisted of:

	<u>Receivables</u>	<u>Payables</u>
Governmental funds		
General fund	\$ 8,936	\$ 1,977,453
Proprietary funds	4,843	-
Internal service funds	<u>407,071</u>	<u>195,542</u>
	<u>\$ 420,850</u>	<u>\$ 2,172,995</u>

At June 30, 2016, transfers with other state funds, including other MDES funds, consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds		
Nonmajor governmental funds	<u>\$ -</u>	<u>\$ 51,177</u>

Note 4: Commitments and Contingencies

Government Grants

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Unemployment Compensation Fund – Fund 8191 of the Mississippi Department of Employment Security (MDES), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 27, 2017, which contained an “emphasis of matter” paragraph regarding the reporting entity.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses 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 MDES' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to MDES' management in a separate letter dated January 27, 2017.

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
January 27, 2017



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Mississippi Department of Employment Security

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

June 30, 2016



Mississippi Department of Employment Security

June 30, 2016

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

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

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying schedule of expenditures of federal awards (the Schedule) for the U.S. Department of Labor –Workforce Investment and Opportunity Act Cluster of the Mississippi Department of Employment Security (MDES) [Program Audited] for the year ended June 30, 2016, and the related notes to the Schedule.

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

Management is responsible for the preparation and fair presentation of the 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 the 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 MDES' 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 MDES' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

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

Opinion

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the Program Audited for the year ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, on our consideration of MDES' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
January 27, 2017

Mississippi Department of Employment Security
Schedule of Expenditures of Federal Awards – Program Audited
Year Ended June 30, 2016

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Passed Through to Subrecipients	Total Federal Expenditures
Fund 3671			
U.S. Department of Labor			
Workforce Investment and Opportunity Act (WIOA) Cluster			
WIA Adult Program	17.258	\$ 7,839,583	\$ 9,510,558
WIA Youth Activities	17.259	7,612,290	9,147,030
WIA Dislocated Workers	17.278	9,025,365	10,605,209
		<u>24,477,238</u>	<u>29,262,797</u>
Total WIOA Cluster			
		<u>24,477,238</u>	<u>29,262,797</u>
Total Expenditures of Direct Federal Awards			
		<u>24,477,238</u>	<u>29,262,797</u>
U.S. Department of Labor			
Passed through from South Delta Planning and Development District, Inc.			
Workforce Investment and Opportunity Act Cluster	17.258/17.259/17.278		3,275,476
Passed through from Mississippi Partnership (Three Rivers Planning and Development District)			
Workforce Investment and Opportunity Act Cluster	17.258/17.259/17.278		2,483,282
Passed through from South Central Mississippi Works (Central Mississippi Planning and Development District, Inc.)			
Workforce Investment and Opportunity Act Cluster	17.258/17.259/17.278		2,747,805
Passed through from Twin Districts (South Mississippi Planning and Development District)			
Workforce Investment and Opportunity Act Cluster	17.258/17.259/17.278		3,938,641
			<u>12,445,204</u>
Total Expenditures of Pass-through Federal Awards			
			<u>12,445,204</u>
Total Federal Awards Expended - Fund 3671			<u>\$ 41,708,001</u>

Mississippi Department of Employment Security
Notes to Schedule of Expenditures of Federal Awards – Program Audited
Year Ended June 30, 2016

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Mississippi Department of Employment Security (MDES) under programs of the U. S. Department of Labor – Workforce Investment and Opportunity Act for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and 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 MDES, it is not intended to and does not present the financial position, changes in net position, or cash flows of MDES or the State of Mississippi.
2. 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
3. MDES has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

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

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

We have audited the compliance of the Mississippi Department of Employment Security (MDES) with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on the U.S. Department of Labor – Workforce Investment and Opportunity Act Cluster [Program Audited] for the year ended June 30, 2016.

Management's Responsibility

Management of MDES is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to the Program Audited.

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Program Audited occurred. An audit includes examining, on a test basis, evidence about MDES' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinions on U.S. Department of Labor –Workforce Investment and Opportunity Act Cluster [Program Audited]

In our opinion, MDES complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its U.S. Department of Labor –Workforce Investment and Opportunity Act Cluster [Program Audited] for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The management of MDES is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MDES' internal control over compliance with the requirements that could have a direct and material effect on the Program Audited to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 MDES' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
January 27, 2017

Mississippi Department of Employment Security
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
Significant deficiency(ies)? ☐ Yes ☒ None reported
Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

Federal Awards

4. The independent auditor's report on internal control over compliance for the Program Audited disclosed:
Significant deficiency(ies)? ☐ Yes ☒ None reported
Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance for the Program Audited was:
☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

Mississippi Department of Employment Security
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2016

7. The Program Audited was:

Cluster/Program	CFDA Number
Workforce Investment and Opportunity Act Cluster	17.258, 17.259, 17.278

Mississippi Department of Employment Security
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2016

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
No matters are reportable	

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding	Questioned Costs
No matters are reportable		

Mississippi Department of Employment Security
Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2016

Reference Number	Summary of Finding	Status
	No matters are reportable.	