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Mississippi State Department of Health

Schedule of Changes in Accrued Compensated Absences

June 30, 2016



Mississippi State Department of Health
Schedule of Changes in Accrued Compensated Absences
June 30, 2016

Contents

Independent Auditor's Report.....	1
 Financial Statement	
Schedule of Changes in Accrued Compensated Absences.....	3
Notes to Schedule of Changes in Accrued Compensated Absences	4
 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 <i>Government Auditing Standards</i>.....	
	5

Independent Auditor's Report

Thad F. Waites, M.D.
Audit Committee Chairman
Mississippi State Department of Health
Jackson, Mississippi

Report on the Schedule of Changes in Accrued Compensated Absences

We have audited the accompanying schedule of changes in accrued compensated absences of the Mississippi State Department of Health (MSDH) 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 MSDH's 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 MSDH'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 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 MSDH 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 our report dated March 16, 2017, on our consideration of MSDH's 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 the 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* in considering MSDH's internal control over the reporting of the schedule of changes in accrued compensated absences and compliance.

BKD, LLP

Jackson, Mississippi
March 16, 2017

Mississippi State Department of Health
Schedule of Changes in Accrued Compensated Absences
Year Ended June 30, 2016

Accrued Compensated Absences

Beginning balance	\$ 8,011,218
Additions	4,081,882
Deletions	<u>(4,924,831)</u>
Ending balance	<u><u>\$ 7,168,269</u></u>

Mississippi State Department of Health
Notes to Schedule of Changes in Accrued Compensated Absences
Year Ended June 30, 2016

Note 1: Basis of Presentation

The schedule of changes in accrued compensated absences of MSDH 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**

Thad F. Waites, M.D.
Audit Committee Chairman
Mississippi State Department of Health
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 State Department of Health (MSDH) [the Schedule] for the year ended June 30, 2016, and have issued our report thereon dated March 16, 2017.

Internal Control Over Financial Reporting

Management of MSDH is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered MSDH's 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 MSDH, but not for the purpose of expressing an opinion on the effectiveness of MSDH's internal control. Accordingly, we do not express an opinion on the effectiveness of MSDH's internal control.

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

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

Compliance

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

Thad F. Waites, M.D.
Audit Committee Chairman
Mississippi State Department of Employment Security
Page 6

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 MSDH's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSDH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
March 16, 2017



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Mississippi State Department of Health

Compliance Audit Report on the U.S. Department of Health and Human Services –
Hospital Preparedness Program (HPP) and Public Health Emergency
Preparedness (PHEP) Aligned Cooperative Agreements and the
U.S. Department of Agriculture – Special Supplemental Nutrition Program for
Women, Infants, and Children (WIC Program)

June 30, 2016



Mississippi State Department of Health

June 30, 2016

Contents

Independent Auditor's Report on the Schedule of Expenditures of Federal Awards - Programs Audited.....	1
Schedule of Expenditures of Federal Awards – Programs Audited.....	3
Notes to Schedule of Expenditures of Federal Awards – Programs Audited	4
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 <i>Government Auditing Standards</i>	5
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 <i>OMB Compliance Supplement</i>	7
Schedule of Findings and Questioned Costs.....	10
Schedule of Prior Findings and Questioned Costs	15

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

Thad F. Waites, M.D.
Audit Committee Chairman
Mississippi State Department of Health
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 Health and Human Services – Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements and the U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) of the Mississippi State Department of Health (MSDH) [Programs 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 financial statement 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 MSDH'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 MSDH's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the Programs 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 March 16, 2017, on our consideration of MSDH'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 MSDH's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
March 16, 2017

Mississippi State Department of Health
Schedule of Expenditures of Federal Awards – Programs 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 5331400000			
U.S. Department of Agriculture			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 2,672,534	\$ 73,120,136
Total for WIC		2,672,534	73,120,136
U.S. Department of Health and Human Services			
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)			
Aligned Cooperative Agreements	93.074	1,787,578	8,666,340
Total for HPP/PHEP		1,787,578	8,666,340
Total Expenditures of Direct Federal Awards - Programs Audited		\$ 4,460,112	\$ 81,786,476

Mississippi State Department of Health
Notes to Schedule of Expenditures of Federal Awards – Programs Audited
June 30, 2016

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the U.S. Department of Health and Human Services – Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements and the U.S. Department of Agriculture - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) of the Mississippi State Department of Health (MSDH) under programs of the federal government for the year ended June 30, 2016. 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 MSDH, it is not intended to and does not present the financial position, changes in net position, or cash flows of MSDH 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. MSDH has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**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***

Thad F. Waites, M.D.
Audit Committee Chairman
Mississippi State Department of Health
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 expenditures of federal awards (the Schedule) for the U.S. Department of Health and Human Services – Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements and the U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) of the Mississippi State Department of Health (MSDH) [Programs Audited] for the year ended June 30, 2016, and have issued our report thereon dated March 16, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of MSDH's Schedule of Programs Audited 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 MSDH's Schedule of Programs Audited is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
March 16, 2017

**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***

Thad F. Waites, M.D.
Audit Committee Chairman
Mississippi State Department of Health
Jackson, Mississippi

Report on Compliance for the U.S. Department of Health and Human Services – Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements and the U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program)

We have audited the compliance of the Mississippi State Department of Health (MSDH) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the U.S. Department of Health and Human Services – Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements and the U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) [Programs Audited] for the year ended June 30, 2016.

Management's Responsibility

Management of MSDH is responsible for compliance with the federal statutes, regulations and the terms and conditions of federal awards applicable to the Programs Audited.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MSDH's Programs 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 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 Programs Audited occurred. An audit includes examining, on a test basis, evidence about MSDH'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 Programs Audited. Our audit does not provide a legal determination on MSDH's compliance.

Opinions on U.S. Department of Health and Human Services – Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements and the U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) [Programs Audited]

In our opinion, MSDH 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 Health and Human Services – Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements and the U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) [Programs Audited] for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The management of MSDH 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 MSDH's internal control over compliance with the requirements that could have a direct and material effect on the Programs 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 MSDH'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-44, that we consider to be a significant deficiency.

Thad F. Waites, M.D.
Audit Committee Chairman
Mississippi State Department of Health
Page 9

MSDH's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questions costs and/or corrective action plan. MSDH's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
March 16, 2017

Mississippi State Department of Health
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 Programs 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 Programs Audited was:
☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer
6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

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

7. The Programs Audited were:

Cluster/Program	CFDA Number
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements	93.074

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

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
	No matters are reportable	

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding	Questioned Costs
2016-44	<p><i>Federal Program</i> – Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.577, Award Year 2014-2015, U.S. Department of Agriculture; Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements, CFDA 93.074, Award Year 2014-2015, U.S. Department of Health and Human Services</p> <p><i>Criteria</i> – Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires that salaries and wages of employees chargeable to more than one grant program or other cost objective are required to be supported by appropriate time distribution records. The method used should produce adequate and equitable distribution of time and effort.</p> <p>Additionally, the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services’ Provider Reimbursement manual requirements for conducting time studies requires the time study to encompass at least one full week per month of the cost reporting period, each week selected must be a full work week, the weeks selected must be equally distributed among the months in the cost reporting period, and no two consecutive months may use the same week for the study.</p> <p><i>Condition</i> – Our review of the time study process identified a lack of adherence to agency policies over time study procedures. Current year time study procedures did not comply with all of the U.S.</p>	None

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

Reference Number	Finding	Questioned Costs
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Department of Health and Human Services, Centers for Medicare and Medicaid Services' Provider Reimbursement manual requirements for conducting time studies, as the data collection weeks were not equally distributed throughout the year. We noted three instances where two consecutive months use the same week for the study in the cost reporting period.

During our testing, we also noted the Mississippi State Department of Health (MSDH or the Agency) has not modified the relative values table to address findings/inconsistencies noted in prior years' audits. The table used in prior years was carried forward to 2016, with the exception that service code 15 was removed. The following are deficiencies communicated to MSDH management in the prior year when the relative values table was originally audited and remain uncorrected in the current year:

- Two instances in which the service codes (83B and 85A) could not be traced to the standard time report, and the relative value table did not agree to auditor calculation of an average of the previous few years' relative value tables.
- One instance in which service code 82A did not agree to the standard time report. A clerical error was noted on the standard time report in which it should have been listed as 82A and not 83A.
- One instance in which service code 29 did not appear on the standard time value table in which time was recorded for nurses, nurse practitioners and doctors on the relative value table.
- One instance in which a program code listed on the standard time value table for service code 99B did not agree to the program code on the relative value table. On the relative value table, it was listed as GA, whereas on the standard time value table, it is listed as OT.
- There was no supervisory review of the relative value table for the last several years.

Additionally, out of 33 time study forms requested for review, two were not provided due to the time study form not being returned by the employee for the time month requested.

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

Reference Number	Finding	Questioned Costs
	<p>Context – MSDH does not have the proper internal controls to ensure the data obtained and maintained is complete and accurate for time study forms and relative value tables. Additionally, there are no proper internal controls to ensure time study weeks are not duplicated in consecutive months.</p> <p>Effect – Failure to modify inaccurate relative values data and adhere to agency policies for time study procedures could result in the misallocation of federal funds and questioned costs. The Agency may then be subject to repaying a portion of the grants, be levied fines and penalties, and potentially lose future grant awards.</p> <p>Cause – MSDH did not update the relative value tables in response to the prior year finding, did not use full weeks in their calculation of weeks for the time study reporting period, and did not obtain all time study forms from all employees required to submit a form.</p> <p>Repeat Finding – Yes, 2015-025</p> <p>Recommendation – We recommend MSDH strengthen internal controls to ensure sufficient application, monitoring and oversight of time study policies and procedures.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Time study reconciliations in FY2016 were properly prepared and reviewed. While data entry issues were not identified in FY2016, it was noted time study forms could not be located for some employees required to submit a form. Greater care will be taken to properly file the required forms.</p> <p>The requirements for the time study schedule weeks will be further reviewed to ensure full weeks are used in the calculation of weeks for the time study reporting period.</p> <p>In regards to the relative value table, while some of the prior year values were corrected, MSDH will continue to correct the remaining relative value table issues.</p>	

Mississippi State Department of Health
Schedule of Prior Findings and Questioned Costs
Year Ended June 30, 2016

Reference Number	Summary of Finding	Status
2015-024	<p><i>Federal Program</i> – Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.577, Award Year 2014-2015, U.S. Department of Agriculture</p> <p><i>Criteria or Specific Requirement</i> – Controls should be strengthened over subrecipient monitoring for the Special Supplemental Nutrition Program for Women, Infants, and Children.</p> <p><i>Condition</i> – MSDH did not perform the required monitoring activities during fiscal year 2015 for any of the subrecipients for the fiscal year 2014 period.</p>	Corrected.
2015-025	<p><i>Federal Program</i> – Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.577, Award Year 2014-2015, U.S. Department of Agriculture; Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements, CFDA 93.074, Award Year 2014-2015, U.S. Department of Health and Human Services</p> <p><i>Criteria or Specific Requirement</i> – Controls should be strengthened over allowable costs/cost principles for the time study system.</p> <p><i>Condition</i> – During review of the time study system used to systematically allocate payroll costs to each program, several errors and inconsistencies were noted which could result in an incorrect allocation among federal programs of payroll expenditures.</p>	Partially corrected. See unresolved sections on finding 2016-001.
2015-026	<p><i>Federal Program</i> – Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.577, Award Year 2014-2015, U.S. Department of Agriculture</p> <p><i>Criteria or Specific Requirement</i> – Controls should be strengthened over the eligibility certification process for the Special Supplemental Nutrition Program for Women, Infants and Children</p> <p><i>Condition</i> – During review of eligibility of participants, several instances were noted in which proper documentation was not maintained in the eligibility records for participants during the certification process.</p>	Corrected.



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Mississippi State Department of Health
Special Revenue Fund – Fund 3330100000
Independent Auditor's Reports and Financial Statements
June 30, 2016



Mississippi State Department of Health

Special Revenue Fund – Fund 3330100000

June 30, 2016

Contents

Independent Auditor’s Report.....	1
--	----------

Financial Statements

Balance Sheet	4
Statement of Revenues, Expenditures and Changes in Fund Balance.....	5
Notes to Financial Statements	6

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 <i>Government Auditing Standards</i>	12
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Schedule of Findings and Responses	14
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Independent Auditor's Report

Thad F. Waites, M.D.
Audit Committee Chairman
Mississippi State Department of Health
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the Special Revenue Fund – Fund 3330100000 of the Mississippi State Department of Health (MSDH) as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as explained in the *Basis for Disclaimer of Opinion on the Changes in Financial Position*, 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 MSDH'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 MSDH'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 on the financial position. Because of the matters described in the *Basis for Disclaimer of Opinion on the Changes in Financial Position* paragraph, however, we were not able to obtain

sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of revenues, expenditures and changes in fund balance.

Basis for Disclaimer of Opinion on the Changes in Financial Position

We did not observe the taking of the physical inventory as of June 30, 2015, since that date was prior to our appointment as auditors for the Special Revenue Fund – Fund 3330100000 of MSDH, and we were unable to satisfy ourselves regarding inventory quantities by means of other auditing procedures. Inventory amounts as of June 30, 2015, enter into the determination of changes in fund balance for the year ended June 30, 2016.

Disclaimer of Opinion on the Changes in Financial Position

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion on the Changes in Financial Position* paragraph above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the changes in fund balance for the year ended June 30, 2016, and, accordingly, express no such opinion.

Opinion on Financial Position

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of the Special Revenue Fund – Fund 3330100000 of MSDH as of June 30, 2016, 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 3330100000 and do not purport to, and do not, present fairly the financial position of MSDH 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 Matter

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.

Thad F. Waites, M.D.
Audit Committee Chairman
Mississippi State Department of Health
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2017, on our consideration of MSDH's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSDH's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
March 16, 2017

Mississippi State Department of Health

Special Revenue Fund – Fund 3330100000

Balance Sheet

June 30, 2016

Assets

Cash with state treasury	\$ 18,572,051
Receivables	3,198,035
Due from other governments	407,085
Due from other state funds	7,423,532
Inventories	<u>3,931,140</u>
Total assets	<u><u>\$ 33,531,843</u></u>

Liabilities and Fund Balance

Liabilities

Due to other state funds	\$ 1,546,933
Accounts payable and accrued expenditures	5,947,234
Due to other governments	<u>43,158</u>
Total liabilities	<u><u>7,537,325</u></u>

Fund Balance

Nonspendable	
Inventories	3,931,140
Restricted	
General government - health	<u>22,063,378</u>
Total fund balance	<u><u>25,994,518</u></u>
Total liabilities and fund balance	<u><u>\$ 33,531,843</u></u>

Mississippi State Department of Health
Special Revenue Fund – Fund 3330100000
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2016

Revenues

Federal government	\$ 9,453,720
Licenses, permits and fees	20,206,225
Charges for sales and services	10,055,523
Transfers in from other state funds	29,006,853
Proceeds from issuance of capital lease	3,879
Other	<u>9,849,839</u>
 Total revenues	 <u>78,576,039</u>

Expenditures

Salaries	30,566,902
Travel	1,325,809
Contractuals	15,299,724
Capital outlay	161,625
Transfers out to other state funds	988,517
Commodities	12,311,512
Subsidies	<u>10,101,107</u>
 Total expenditures	 <u>70,755,196</u>

Net Increase in Fund Balance	7,820,843
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Fund Balance - Beginning of Year	<u>18,173,675</u>
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Fund Balance - End of Year	<u><u>\$ 25,994,518</u></u>
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Mississippi State Department of Health

Special Revenue Fund – Fund 3330100000

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 State Department of Health (MSDH or the Agency) is a state agency funded with state appropriated funds, funds received from sales of goods and services and federal grants.

MSDH was established in 1877 to protect and advance health throughout Mississippi. The major operations of the Agency include disease surveillance, environmental protection, disease and injury prevention, facility licensing, immunizations, emergency preparedness, providing health information for the general public, comprehensive reproductive health, licenses and records, wastewater permits, and other social services.

MSDH's Special Revenue Fund 3330100000 (Fund 3330100000) is a special revenue fund that accounts for monies received from sales of services and supplies and indirect cost recovery for general and administrative costs.

Basis of Presentation

The accounting and reporting policies of MSDH 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).

MSDH's Fund 3330100000 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 3330100000 and do not purport to, and do not, present fairly the financial position of MSDH 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 MSDH are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. MSDH 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.

Mississippi State Department of Health

Special Revenue Fund – Fund 3330100000

Notes to Financial Statements

June 30, 2016

Fund financial statements provide information about MSDH's 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. MSDH 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.

When both restricted and unrestricted resources are available for use, it is MSDH's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund Balance

The fund balance for MSDH's governmental funds can be displayed in five components.

- Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact, such as inventories.
- Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.
- Committed – Amounts that can be used only for the specific purposes determined by a formal action of the Mississippi Legislature.
- Assigned – Amounts intended to be used by the government for specific purposes. In governmental funds other than the General Fund, assigned fund balances represent the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- Unassigned – The residual classification for the General Fund includes all amounts not contained in the other classifications. The unassigned classification is also used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The fund balance for the funds included in these financial statements are considered restricted for MSDH's purposes.

Mississippi State Department of Health

Special Revenue Fund – Fund 3330100000

Notes to Financial Statements

June 30, 2016

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 MSDH from various entities. MSDH 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.

Inventory Pricing

Inventories consist of pharmaceutical drugs, other medical items and office supplies. Inventories are stated at the lower of cost or market and are expensed at the time of consumption. Costs of inventories are determined using the first-in, first-out (FIFO) method.

Risk Management

MSDH 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. MSDH 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 MSDH 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 MSDH 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 3330100000 is only a part of MSDH. Balances with other state funds, including other MSDH funds, have not been eliminated from the balance sheet. Amounts due to and due from

Mississippi State Department of Health

Special Revenue Fund – Fund 3330100000

Notes to Financial Statements

June 30, 2016

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 3330100000 in accordance with budgetary authorizations.

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, receivables and payables from other state funds, including other MSDH funds, consisted of:

	Receivables	Payables
Governmental funds		
General fund	\$ 7,423,532	\$ 1,356,613
Internal service funds	-	190,320
	<u>\$ 7,423,532</u>	<u>\$ 1,546,933</u>

Mississippi State Department of Health
Special Revenue Fund – Fund 3330100000
Notes to Financial Statements
June 30, 2016

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

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds		
Nonmajor governmental funds	\$ 29,006,853	\$ 988,517

Note 4: Defined Benefit Pension Plan

MSDH 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 MSDH 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. MSDH and employee contributions to 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:

	<u>MSDH</u>	<u>Employee</u>
2016	\$ 3,900,000	\$ 2,229,000
2015	4,525,000	2,586,000
2014	5,176,000	9,937,000

Mississippi State Department of Health

Special Revenue Fund – Fund 3330100000

Notes to Financial Statements

June 30, 2016

Note 5: Commitments

MSDH has entered into several noncancelable leases for office space. Rent expense associated with these leases totaled approximately \$715,000 for the year ended June 30, 2016. Future minimum lease payments at June 30, 2016, consist of the following:

2017	\$ 615,578
2018	516,043
2019	494,460
2020	482,711
2021	124,268
Thereafter	<u>48,866</u>
	<u>\$ 2,281,926</u>

Note 6: Significant Estimates and Concentrations

Economic Dependency

MSDH 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, 13% of MSDH's Fund 3330100000 revenues were provided by the federal government through indirect cost recovery.

Note 7: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, 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 the Financial Statements Performed in Accordance with
Government Auditing Standards**

Thad F. Waites, M.D.
Audit Committee Chairman
Mississippi State Department of Health
Jackson, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Special Revenue Fund – Fund 3330100000 of the Mississippi State Department of Health (MSDH), 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 March 16, 2017, which contained a *Disclaimer of Opinion on the Statement of Revenues, Expenditures and Changes in Fund Balance*, and an *Emphasis of Matter* paragraph regarding the reporting entity.

Internal Control Over Financial Reporting

Management of MSDH 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 MSDH's 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 MSDH's internal control. Accordingly, we do not express an opinion on the effectiveness of MSDH's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 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. 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 MSDH's financial statements will not be prevented or detected and corrected on a timely

basis. We consider the deficiencies described in the accompanying schedule of findings and responses, as item 2016-43 to be a material weakness.

Compliance and Other Matter

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

MSDH's Response to Findings

MSDH's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. MSDH's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to MSDH's management in a separate letter dated March 16, 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 MSDH's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSDH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
March 16, 2017

Mississippi State Department of Health
Schedule of Findings and Responses
Year Ended June 30, 2016

<i>Reference Number</i>	<i>Finding</i>
2016-43	<p><i>Criteria or Specific Requirement</i> – Management is responsible for establishing and maintaining effective internal control over financial reporting. 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.</p> <p><i>Condition</i> – MSDH’s procedures to ensure all significant receivables related to indirect cost recovery and services provided through the clinics received after the lapse period are properly estimated and accrued into the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) need to be established.</p> <p><i>Effect</i> – As a result, material prior year grant revenues were recorded as revenues in the current year in Fund 3330100000 for indirect cost recovery paid after the lapse period. Additionally, a material current year accrual was recorded as an audit adjustment related to services provided through the clinics.</p> <p><i>Cause</i> – Although MSDH’s internal control procedures in place throughout the year contained a process for the identification and recording of year-end liabilities for grant reimbursement requests paid during the lapse period, the process did not fully address indirect cost recovery amounts due to MSDH at year-end but submitted after the lapse period. This process does not include a review of the Department of Finance and Administration’s (DFA) accruals to ensure all items requiring accrual are properly captured. Additionally, MSDH does not have an appropriate process to review, analyze and record an allowance for doubtful accounts related to services provided in the clinics.</p> <p><i>Recommendation</i> – MSDH has enhanced and improved controls during the year to establish acceptable cut-off of indirect cost recovery revenue. MSDH should continue to seek ways to strengthen policies, controls and oversight over this process to ensure the proper amount is accrued by DFA during the lapse period accrual process. For accounts receivable related to services provided in the clinics, we recommend management review, analyze and record an allowance for doubtful accounts on a monthly or quarterly basis. Management should compare actual results to recorded estimates.</p> <p><i>View of Responsible Officials and Planned Corrective Actions</i> – Management notes this matter was partially related to beginning-of-year balances. Management has strengthened internal controls over accounts receivable and other areas during the year to establish proper cut-off procedures. MSDH is currently working to procure new software for the clinics that will streamline the process of tracking outstanding patient balances for the clinics to facilitate the above recommendations.</p>



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STATE OF MISSISSIPPI
DEPARTMENT OF HEALTH
DRINKING WATER SYSTEMS IMPROVEMENTS REVOLVING LOAN FUND

Audited Financial Statements
June 30, 2016
(With Comparative Totals for June 30, 2015)

State of Mississippi
Department of Health
Drinking Water Systems Improvements Revolving Loan Fund

Table of Contents

	<u>Page</u>
Independent Auditor's Report.....	1
Financial Statements.....	3
Balance Sheet.....	4
Statement of Revenues, Expenditures and Changes in Fund Balance.....	5
Notes to the Financial Statements.....	6
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 <i>Government Auditing Standards</i>	12
Independent Auditor's Report on Compliance with the Requirements Applicable to the Environmental Protection Agency's Capitalization Grants for Drinking Water State Revolving Funds in Accordance with <i>Government Auditing Standards</i>	14

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American Institute of CPAs
Mississippi Society of CPAs

Independent Auditor's Report

Local Governments and Rural
Water Systems Improvements Board
Mississippi State Department of Health

Report on the Financial Statements

We have audited the accompanying financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

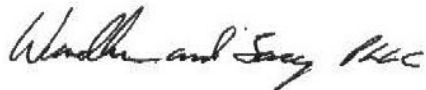
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United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

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above are intended to present only the financial position and results of operations of the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi. These statements are not intended to present the financial position and results of operations for the State of Mississippi or the Mississippi State Department of Health, of which the Fund is a part.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, dated November 28, 2016, on our consideration of the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Windham and Lacey, PLLC
November 28, 2016

DEPARTMENT OF HEALTH
DRINKING WATER SYSTEMS IMPROVEMENTS REVOLVING LOAN FUND

FINANCIAL STATEMENTS

STATE OF MISSISSIPPI
DEPARTMENT OF HEALTH
DRINKING WATER SYSTEMS IMPROVEMENTS
REVOLVING LOAN FUND
BALANCE SHEET
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

ASSETS	2016	2015
Equity in internal investment pool	\$ 75,389,305	\$ 68,256,191
Receivables:		
Loans receivable	57,026,194	60,647,599
Due from other governments	102,756,049	94,393,475
Due from federal government	864,562	459,862
Due from other funds	114,138	
Interest receivable on investments		45,538
TOTAL ASSETS	<u>\$ 236,150,248</u>	<u>\$ 223,802,665</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Warrants payable	\$ 196,019	\$ 5,689
Accounts payable	508,127	610,504
Due to other funds	124,882	20,926
Due to local governments	<u>2,162,999</u>	<u>1,209,957</u>
TOTAL LIABILITIES	<u>2,992,027</u>	<u>1,847,076</u>
FUND BALANCE:		
Restricted for health and social service	<u>233,158,221</u>	<u>221,955,589</u>
TOTAL FUND BALANCE	<u>233,158,221</u>	<u>221,955,589</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 236,150,248</u>	<u>\$ 223,802,665</u>

See accompanying Notes to Financial Statements.

STATE OF MISSISSIPPI
DEPARTMENT OF HEALTH
DRINKING WATER SYSTEMS IMPROVEMENTS
REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	<u>2016</u>	<u>2015</u>
REVENUES		
Interest on loans	\$ 2,493,887	\$ 2,513,565
Interest on investments	654,715	557,896
Loan administration fee	799,672	692,631
Federal programs	<u>9,491,161</u>	<u>8,220,958</u>
TOTAL REVENUES	<u>13,439,435</u>	<u>11,985,050</u>
EXPENDITURES		
Administrative expenses	599,545	806,503
Principal forgiveness - Other	<u>1,597,968</u>	<u>2,161,184</u>
TOTAL EXPENDITURES	<u>2,197,513</u>	<u>2,967,687</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>11,241,922</u>	<u>9,017,363</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from bonds issued		1,000,000
Transfers, net	<u>(39,290)</u>	<u>422,337</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(39,290)</u>	<u>1,422,337</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>11,202,632</u>	<u>10,439,700</u>
FUND BALANCE		
Fund Balance - Beginning, as previously stated	221,955,589	207,343,815
Prior period adjustment		<u>4,172,074</u>
Fund Balance - Beginning, as restated	<u>221,955,589</u>	<u>211,515,889</u>
Fund Balance - Ending	<u>\$ 233,158,221</u>	<u>\$ 221,955,589</u>

See accompanying Notes to Financial Statements.

STATE OF MISSISSIPPI
Department of Health
Drinking Water Systems Improvements Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

1. ORGANIZATION OF THE FUND.

The Mississippi State Legislature established the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) pursuant to the federal Safe Drinking Water Act Amendments of 1996. The Act created the revolving loan fund program to provide low interest rate loans to counties, municipalities, districts and other tax-exempt water systems organizations for construction of new water systems, the expansion or repair of existing water systems and/or the consolidation of new or existing water systems. The State law further provides that any such federal funds shall be used and expended only in accordance with federal laws, rules and regulations governing the expenditure of such funds. The State law created the Local Governments and Rural Water Systems Improvements Board (the Board) to implement the loan program and otherwise administer provisions of the law.

Loans are awarded on a priority system, which gives maximum priority to projects needed to comply with the federal Safe Drinking Water Act (SDWA), projects that provide the greatest protection to public health and those projects which assist systems most in need on a per household basis. Interest rates charged on loans will be at or below market interest rates as determined by the Board, with up to 20 years allowed for repayment.

Federal funds are provided through federal capitalization grants pursuant to Section 1452 of the SDWA Amendments of 1996. The amount of each grant is determined by the State's U.S. Environmental Protection Agency (EPA) allocated share of the annual federal appropriation for the program. The award of each grant is conditioned on the State depositing an amount into the Fund equaling 20% of the amount of each federal capitalization grant. The State Legislature authorized the issuance of the state general obligation bonds to provide state funds for the program. \$30,843,000 of the proceeds from the sale of these bonds has been deposited into the Fund. These funds are invested by the State Treasurer until such time that the funds are needed to meet State matching requirements on loan payments. In 2015 and 2016, the State legislature authorized a direct appropriation for a portion of the State match and the Board authorized the use of \$180,000 from other funds as additional match funds. As of June 30, 2016, the EPA had awarded \$177,167,566 in capitalization grants to the State, requiring \$35,433,513 in State matching funds.

The Fund is administered by the Mississippi State Department of Health (MSDH) under the direction of the Board. MSDH's primary activities include loans for drinking water systems and management and coordination of the Fund. The Board consists of the following nine voting members: the State Health Officer; the Executive Directors of the Mississippi Development Authority; the Department of Environmental Quality; the Department of Finance and Administration; the Mississippi Association of Supervisors; the Mississippi Municipal League; and the American Council of Engineering Companies of Mississippi; the State Director of the United States Department of Agriculture, Rural Development; and a manager of a rural water system. The manager of a rural water system is appointed by the Governor from a list of candidates provided by the Executive Director of the Mississippi Rural Water Association. Non-appointed members of the Board may designate another representative of their agency or association to serve as an alternate. The gubernatorial appointee serves a term concurrent with the Governor and until a successor is appointed.

The Fund does not have any full-time employees. MSDH provides employees to manage the program.

STATE OF MISSISSIPPI
Department of Health
Drinking Water Systems Improvements Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Basis of Accounting

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

Loans Receivable and Due From Other Governments

The State operates the Fund as a direct loan program, whereby loans made to drinking water systems are 80.77% funded by the federal capitalization grant and 19.23% by the State matching amount. Loan funds are disbursed to the loan recipients upon receipt of a request from the loan recipient for the purposes of the loan. Interest is calculated from the initial contract completion date. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed, plus interest accrued from initial contract completion date to initiation of repayment process, less principal forgiveness granted on the loan.

Fund Balance

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

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

Budget Information

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

3. EQUITY IN INTERNAL INVESTMENT POOL.

All monies of the Fund are deposited with the State Treasurer and are considered to be cash and cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with state laws, and excess cash is invested in the State's cash and short-term investment pool. Details of the investments of the internal investment pool for state agencies can be obtained from the State Treasurer. As of June 30, 2016, the State's total pooled deposits and investments for state agencies were approximately \$3.6 billion, and the average remaining life of the securities invested was 2.89 years. The earnings for the total pooled investments for the year ended June 30, 2016 were approximately \$3.0 million.

Equity in internal investment pool is cash equity with the Treasurer and consists of pooled deposits and investments carried at cost, which approximates fair value. At June 30, 2016, the Fund had approximately \$75.4 million in the Treasurer's internal investment pool. The total deposits and investments of the internal investment pool are categorized according to credit risk in the State of Mississippi's Comprehensive Annual Financial Report. However, the Fund's portion of the internal investment pool cannot be individually categorized because the deposits and investments are pooled with other State agencies.

STATE OF MISSISSIPPI
Department of Health
Drinking Water Systems Improvements Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

4. LOANS RECEIVABLE AND DUE FROM OTHER GOVERNMENTS AND CREDIT RISK.

The Fund makes loans to qualified drinking water systems for projects that meet the eligibility requirements of the SDWA. Loans are financed by capitalization grants, ARRA grants, State match and revolving funds. Interest rates on loans vary between 1.95% to 4.5% and are generally repaid over 20 years, starting as specified in the loan agreement; the beginning date is normally at the end of the project construction which is usually a one year time period. Details of loans receivable as of June 30, 2016, are discussed below.

In the event of a default on a loan obligation by a public entity, MSDH has certain legal remedies that provide for ultimate collection of amounts due. Management believes that no allowance for doubtful accounts is necessary because of the applicant review process.

Loans by Category

Loans receivable (including amounts due from other governments) at June 30, 2016, are as follows:

<u>Description</u>	<u>Loans Authorized</u>	<u>Authorized Amount Remaining</u>	<u>Loan Balance</u>
Completed projects	\$ 220,482,034	\$	\$ 143,872,592
Projects in progress	<u>42,269,306</u>	<u>26,359,655</u>	<u>15,909,651</u>
Totals	\$ <u>262,751,340</u>	\$ <u>26,359,655</u>	159,782,243
Less amount due within one year on completed projects			<u>(10,659,636)</u>
Loans receivable and due from other governments, long-term			\$ <u>149,122,607</u>

Loans mature at various intervals through June 30, 2036. The scheduled principal payments on loans maturing in subsequent years are as follows:

<u>Years Ending June 30:</u>	<u>Amount</u>
Completed projects:	
2017	\$ 10,659,636
2018	10,680,244
2019	10,754,521
2020	10,820,901
2021	10,870,184
Thereafter	90,087,106
Projects in progress	<u>15,909,651</u>
Total	\$ <u>159,782,243</u>

Loan Administrative Fees

The Fund collects administrative fees from each loan recipient at 5% of the initial loan amount. Beginning July 1, 2009, the Fund collects administrative fees from the interest portion of loan repayments. Interest payments from each loan recipient are reclassified to administrative fee income until the entire administrative fee for that loan has been collected. Loan administration fee revenue of \$799,672 was collected in 2016.

STATE OF MISSISSIPPI
Department of Health
Drinking Water Systems Improvements Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

Prior to July 1, 2009, these administrative fees were added to the loan amount as the loan principal to be repaid by the loan recipient. Financial Accounting Standards Board Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Direct Initial Costs of Leases* (FASB 91), considers these fees to be origination fees and required that loan origination fees be deferred and recognized over the life of the loan as an adjustment to the interest rate. FASB 91 also required that the unamortized balance of such fees be reported as part of the loan to which it relates. However, in 2015, the Fund implemented Governmental Accounting Standards Boards' Statements 65 and 66. As a result, the remaining balance of the unamortized administrative fees added prior to 2009 were charged to income as a prior period adjustment.

Major Loans to Drinking Water Systems

As of June 30, 2016, the Fund had made loans to 42 drinking water systems that, in the aggregate, exceeded \$1,500,000. The outstanding balances of these loans represent approximately 75.91% of the total loans receivable, as follows:

Local Agency	Authorized Loan Amount	Outstanding Balance
ACL Water Association	\$ 1,601,571	\$ 780,922
Adams County Water Association	2,844,725	1,332,499
Bear Creek Water Association	8,989,445	4,967,606
City of Baldwin	1,938,518	1,781,402
City of Brookhaven	2,500,000	95,925
City of Clinton	5,056,888	3,313,986
City of Columbia	1,741,864	1,605,511
City of Gautier	2,677,171	1,670,588
City of Hernando	2,177,042	784,092
City of Horn Lake	3,825,927	978,529
City of Laurel	4,804,390	4,748,433
City of Long Beach	1,521,484	510,230
City of Madison	1,957,707	1,941,375
City of Ocean Springs	5,497,240	3,502,765
City of Pearl	4,959,906	2,738,539
City of Port Gibson	2,847,023	2,037,753
City of Ridgeland	2,851,890	1,689,652
City of Southaven	11,270,753	6,730,745
City of Tupelo	10,733,031	5,865,276
City of West Point	1,536,148	686,789
Center Water Association	1,946,494	1,369,361
Collinsville Water Association	1,530,000	734,979
Corinth Utilities Commission	47,034,278	38,422,900
Culkin Water District	4,434,736	2,314,137
Fannin Water Association	1,566,435	720,182
Fisher Ferry Water District	3,105,984	1,822,854
Good Hope Water Association	1,530,817	1,144,359
Greenfield Water Association	2,150,808	1,238,156
Greenwood Utilities	2,640,609	763,705
Hilldale Water District	5,594,683	4,066,578
Jackson County Utility Authority	6,281,290	216,973

(Continued)

STATE OF MISSISSIPPI
Department of Health
Drinking Water Systems Improvements Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

Local Agency	Authorized Loan Amount	Outstanding Balance
Lampton Water Association	2,056,966	1,390,846
Lewisburg Water Association	1,948,907	995,919
Town of Morton	2,188,373	1,321,662
Northeast Mississippi Regional Water Supply District	2,677,553	907,973
Pleasant Hill Water Association	1,935,359	17,228
Progress Community Water Association	1,748,791	821,744
Southeast Rankin Water Association	1,921,226	814,664
Southwest Jones Water Association	1,871,292	1,417,988
Town of Caledonia	3,285,745	2,544,293
Walls Water Association	3,775,223	1,793,889
West Jackson Utility District	13,846,050	8,684,795
Total	\$ 196,404,342	\$ 121,287,802

5. GRANT AWARDS.

The Fund is funded by Capitalization Grants from the EPA authorized by Section 1452 of the SDWA Amendments of 1996 and matching funds from the State. All federal funds drawn are recorded as grant awards from the EPA. As of June 30, 2016, the EPA has awarded capitalization grants of \$177,167,566 to the State, of which \$167,822,266 has been drawn for loans and administrative expenses. The State has provided matching funds of \$30,843,000 from eight general obligation bond issues by the State and additional funds from direct State appropriations. The proceeds from these bonds were deposited into the Fund for State matching. In 2014, 2015 and 2016, the Board used amounts from other funds as additional match funds. The following summarizes the capitalization grants awarded, amounts drawn on each grant and balances available for future loans:

Year	Grant Amount	Draws		Through June 30, 2016	Available June 30, 2016
		Through June 30, 2015	2016 Draws		
1997	\$ 16,474,200	\$ 16,474,200	\$	\$ 16,474,200	\$ 0
1998	8,271,700	8,271,700		8,271,700	0
1999	8,669,500	8,669,500		8,669,500	0
2000	9,010,100	9,010,100		9,010,100	0
2001	9,047,400	9,047,400		9,047,400	0
2002	8,052,500	8,052,500		8,052,500	0
2003	8,004,100	8,004,100		8,004,100	0
2004	8,303,100	8,303,100		8,303,100	0
2005	8,285,500	8,285,500		8,285,500	0
2006	8,229,300	8,229,300		8,229,300	0
2007	8,229,000	8,229,000		8,229,000	0
2008	8,146,000	8,146,000		8,146,000	0
2009	8,146,000	8,146,000		8,146,000	0
2010	14,125,000	14,125,000		14,125,000	0
2011	9,811,166	9,811,166		9,811,166	0
2012	9,341,000	9,291,736	49,033	9,340,769	231
2013	8,764,000	7,272,323	1,480,173	8,752,496	11,504
2014	9,159,000	1,367,180	7,016,166	8,383,346	775,654
2015	9,099,000	0	541,089	541,089	8,557,911
	\$ 177,167,566	\$ 158,735,805	9,086,461	\$ 167,822,266	9,345,300

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STATE OF MISSISSIPPI
Department of Health
Drinking Water Systems Improvements Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

	2016 Draws	Available June 30, 2016
Receivable, June 30, 2015	(459,862)	
Receivable, June 30, 2016	<u>864,562</u>	<u>(864,562)</u>
Grant revenues, modified accrual basis	\$ <u>9,491,161</u>	
Amount available, modified accrual basis		\$ <u>8,480,738</u>

As of June 30, 2015 and 2016, state matching contributions were as follows:

Description	Contributions Through June 30, 2015	Fiscal Year 2016 Contributions	Contributions Through June 30, 2016
State of Mississippi	\$ <u>33,642,994</u>	\$ <u>1,276,340</u>	\$ <u>34,919,334</u>

6. CONTINGENCIES.

The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, and injuries to state employees while performing Fund business, or acts of God. MSDH maintains insurance for some risks of loss. Risks of loss related to torts are administered by the Mississippi Tort Claims Board. Since its inception in 1996, there have not been any claims against the Fund.

7. CHANGE IN ACCOUNTING STANDARD – PRIOR PERIOD ADJUSTMENT.

In 2015, the Fund implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement 65, *Items Previously Reported as Assets and Liabilities*; GASB Statement 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The provisions of these standards have been incorporated into the financial statements and notes.

Explanation	Amount
Fiscal year ending June 30, 2015:	
Implementation of GASB Statement 65, <i>Items Previously Reported as Assets and Liabilities</i> - loan administrative fees	\$ <u>4,172,074</u>
Total prior period adjustment - 2015	\$ <u>4,172,074</u>

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

The Local Governments and Rural
Water Systems Improvements Board
Mississippi State Department of Health

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 the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Fund's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

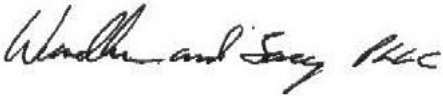
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

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

Windham and Lacey, PLLC
November 28, 2016

Windham and Lacey, PLLC

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

The Local Governments and Rural
Water Systems Improvements Board
Mississippi State Department of Health

We have audited the financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2016, and have issued our report thereon dated November 28, 2016.

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

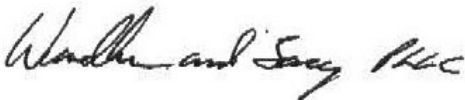
- Activities allowed or unallowed,
- Allowable costs/cost principles,
- Cash management,
- State matching,
- Period of availability of federal funds and binding commitments,
- Procurement, suspension and debarment,
- Program income,
- Reporting,
- Subrecipient monitoring, and
- Special tests and provisions

that are applicable to the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board for the year ended June 30, 2016. The management of the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board is responsible for the Fund's compliance with those requirements. Our responsibility is to express an opinion on those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Fund's compliance with those requirements.

In our opinion, the Fund complied, in all material respects, with the requirements governing activities allowed or unallowed; allowable costs/cost principles; cash management; state matching; period of availability of federal funds and binding commitments; procurement, suspension and debarment; program income; reporting; subrecipient monitoring; and special tests and provisions that are applicable to the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board for the year ended June 30, 2016.

This report is intended for the information and use of management, the Local Governments and Rural Water Systems Improvements Board, others within the entity, the Governor, Members of the Legislature and the United States Environmental Protection Agency and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, appearing to read "Windham and Lacey, PLLC".

Windham and Lacey, PLLC
November 28, 2016