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State of Mississippi
Department of Public Safety

Independent Auditor's Reports and
Financial Statements of Funds Selected for Audit
June 30, 2016



State of Mississippi
Department of Public Safety
June 30, 2016

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Independent Auditor's Report

Commissioner Marshall L. Fisher
State of Mississippi
Department of Public Safety
Jackson, Mississippi

Report on the Financial Statements of Funds Selected for Audit

We have audited the accompanying financial statements of the Driver Service Fees Fund, the Weapons Permit Fund, the Disability and Relief Fund, the Driver's License Photo Fees Fund and the Driver's License Special Fees Fund of the State of Mississippi Department of Public Safety (DPS), which are comprised of balance sheets as of June 30, 2016, and statements of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Driver Service Fees Fund, the Weapons Permit Fund, the Disability and Relief Fund, the Driver's License Photo Fees Fund and the Driver's License Special Fees Fund of the State of Mississippi Department of Public Safety as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, the financial statements present only the Driver Service Fees Fund, the Weapons Permit Fund, the Disability and Relief Fund, the Driver's License Photo Fees Fund and the Driver's License Special Fees Fund selected for audit by the State of Mississippi, Office of the State Auditor and do not purport to, and do not present fairly the financial position of the State of Mississippi Department of Public Safety as of June 30, 2016, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other 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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinions on the financial statements are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2017, on our consideration of DPS' 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 DPS' internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
March 15, 2017

State of Mississippi
Department of Public Safety
Balance Sheets of Funds Selected for Audit
June 30, 2016

	Governmental Fund Type				
	Driver Service Fees Fund 3371600000	Weapons Permit Fund 3371700000	Disability and Relief Fund 3371A00000	Driver's License Photo Fees Fund 3371B00000	Driver's License Special Fees Fund 3371C00000
Assets					
Cash	\$ 7,042,175	\$ 4,400,786	\$ -	\$ 3,020,775	\$ 3,109,678
Accounts receivable	2,171,041	57,205	-	106,110	117,566
Due from other funds	291,065	203,796	114,846	365,017	279,154
Inventory	1,167,022	-	-	-	-
Other receivables	22,250	-	-	1,938	1,933
Total assets	<u>\$ 10,693,553</u>	<u>\$ 4,661,787</u>	<u>\$ 114,846</u>	<u>\$ 3,493,840</u>	<u>\$ 3,508,331</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 313,879	\$ 161	\$ -	\$ 13,633	\$ -
Due to local governments	7,481	-	-	-	-
Due to other funds	1,204,579	193,558	-	-	-
Total liabilities	<u>1,525,939</u>	<u>193,719</u>	<u>-</u>	<u>13,633</u>	<u>-</u>
Fund Balances					
Nonspendable					
Inventories	1,167,022	-	-	-	-
Restricted for law enforcement	8,000,592	4,468,068	114,846	3,480,207	3,508,331
Total fund balances	<u>9,167,614</u>	<u>4,468,068</u>	<u>114,846</u>	<u>3,480,207</u>	<u>3,508,331</u>
Total liabilities and fund balances	<u>\$ 10,693,553</u>	<u>\$ 4,661,787</u>	<u>\$ 114,846</u>	<u>\$ 3,493,840</u>	<u>\$ 3,508,331</u>

State of Mississippi
Department of Public Safety
Statements of Revenues, Expenditures and
Changes in Fund Balances of Funds Selected for Audit
Year Ended June 30, 2016

	Governmental Fund Type				
	Driver Service Fees Fund 3371600000	Weapons Permit Fund 3371700000	Disability and Relief Fund 3371A00000	Driver's License Photo Fees Fund 3371B00000	Driver's License Special Fees Fund 3371C00000
Revenues					
Licenses, fees and permits	\$ 6,142,541	\$ 2,176,748	\$ 314,873	\$ 5,461,843	\$ 4,703,328
Highway safety patrol fees	114,849	-	-	206,301	-
Charges for supplies/services to outside entities	66,217	1,044,570	-	-	-
Sales of personal property	243,270	-	-	-	-
Insurance recovery	104,000	-	-	-	-
Other income	136,647	-	-	-	-
Total revenues	6,807,524	3,221,318	314,873	5,668,144	4,703,328
Expenditures					
Current					
Salaries and wages	262,229	84,546	-	-	-
Travel	233,398	-	-	-	-
Contractuals	6,453,535	758,252	-	4,655,080	12,978
Commodities	2,610,376	1,565	-	13,633	298,904
Capital outlay	343,879	-	-	-	1,959,631
Total expenditures	9,903,417	844,363	-	4,668,713	2,271,513
Excess of Revenues Over (Under) Expenditures	(3,095,893)	2,376,955	314,873	999,431	2,431,815
Other Financing Sources (Uses)					
Transfers in	6,690,300	-	-	350,640	110,000
Transfers out	(26,293)	(1,312,960)	(912,779)	-	(5,732,482)
	6,664,007	(1,312,960)	(912,779)	350,640	(5,622,482)
Net Change in Fund Balances	3,568,114	1,063,995	(597,906)	1,350,071	(3,190,667)
Fund Balances, Beginning of Year	5,599,500	3,404,073	712,752	2,130,136	6,698,998
Fund Balances, End of Year	\$ 9,167,614	\$ 4,468,068	\$ 114,846	\$ 3,480,207	\$ 3,508,331

State of Mississippi
Department of Public Safety
Notes to Financial Statements of Funds Selected for Audit
June 30, 2016

Note 1: Significant Accounting Policies

Background Information

The State of Mississippi Department of Public Safety (DPS), an agency of the State of Mississippi, follows fund accounting with respect to DPS funds and pursuant to applicable state statutes. Driver Service Fees Fund, Driver's License Photo Fees Fund and Driver's License Special Fees Fund are funds used by DPS to account for revenues and fees related to driver's license issuances and other driver service fees. Revenues generated from these funds are used to defray the operating costs of the Division of Highway Safety Patrol and to cover costs associated with generating photo licenses.

The Weapons Permit Fund is used by DPS to account for issuances of firearm permits. Revenues generated from this fund are used to administer the weapons permit law. The Disability and Relief Fund is used to account for motor vehicle registration and reinstatement fees. Fees collected by this fund are used to fund the Mississippi Highway Safety Patrol Retirement System for the Mississippi Bureau of Narcotics employees.

These funds represent funds selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying presentation does not purport to present the financial position and changes in financial position of DPS.

Basis of Presentation

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

Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting*, as issued by the Government Finance Officers Association.

Fund Accounting

The financial activities of the funds audited are recorded in individual funds and account groups used to report financial position and changes in financial position. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

State of Mississippi
Department of Public Safety
Notes to Financial Statements of Funds Selected for Audit
June 30, 2016

Basis of Accounting/Measurement Focus

The Governmental Fund Type is accounted for on a flow of current financial resources measurement focus. This focus measures financial resources available to the entity in the near future as a result of transactions and events of the fiscal period reported. The modified accrual basis of accounting is utilized. Under this method, revenues are recognized when they become measurable and available, and expenditures are recognized at the time liabilities are incurred.

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, expenditures and other changes in fund balances during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenues from fees are recognized when they are received. Revenues from services or supplies are recognized when the services or supplies are provided. Other revenues in the various funds are generally recognized when the revenue is received or appropriated by the State of Mississippi Legislature.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. All short-term, highly liquid investments that are readily convertible to cash (generally with a maturity of three months or less) are considered cash equivalents. At June 30, 2016, there were no cash equivalents.

Interfund Receivables/Payables

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

Accounts Receivable

Accounts receivable consist of amounts billed by a third party related to public searches of motor vehicle registrations. Accounts receivable are reported net of allowances for uncollectible accounts, where applicable. No allowance for uncollectible accounts is recorded at June 30, 2016.

State of Mississippi
Department of Public Safety
Notes to Financial Statements of Funds Selected for Audit
June 30, 2016

Inventories

Inventories consist of office materials, cleaning supplies, clothing, motor vehicle operating supplies and communication supplies. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Fund Balances – Governmental Funds

The fund balances for DPS' governmental funds are displayed in three 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 State of Mississippi Legislature.

DPS considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available.

Note 2: Cash and Other Deposits

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

Note 3: Defined Benefit Pension Plan

DPS participates in the Public Employees' Retirement System of Mississippi (PERS) a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries.

State of Mississippi
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Notes to Financial Statements of Funds Selected for Audit
June 30, 2016

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. This information may be obtained by contacting PERS.

During fiscal year 2016, PERS members were required to contribute 9% of their annual covered salary, and DPS is required to contribute at an actuarially determined rate, which was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. DPS' contributions are made at the agency level; therefore, information is not available on contributions by specific funds.

Note 4: Interfund Receivables, Payables and Transfers

Interfund receivables and payables at June 30, 2016, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Driver Service Fees Fund		
State of Mississippi	\$ 291,065	\$ 1,002,445
Driver's License Special Fees	-	26,976
Driver's License Photo Fees	-	57,325
Weapons Permit Fund	-	117,833
	<u>\$ 291,065</u>	<u>\$ 1,204,579</u>
Weapons Permit Fund		
State of Mississippi	\$ 85,963	\$ 193,558
Driver Service Fees Fund	117,833	-
	<u>\$ 203,796</u>	<u>\$ 193,558</u>
Disability and Relief Fund		
State of Mississippi	<u>\$ 114,846</u>	<u>\$ -</u>

State of Mississippi
Department of Public Safety
Notes to Financial Statements of Funds Selected for Audit
June 30, 2016

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Driver's License Photo Fees		
State of Mississippi	\$ 307,692	\$ -
Driver Service Fees Fund	<u>57,325</u>	<u>-</u>
	<u><u>\$ 365,017</u></u>	<u><u>\$ -</u></u>
Driver's Licenses Special Fees		
State of Mississippi	\$ 252,178	\$ -
Drivers Services Fees Fund	<u>26,976</u>	<u>-</u>
	<u><u>\$ 279,154</u></u>	<u><u>\$ -</u></u>

Interfund transfers for the year ended June 30, 2016, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
Driver Service Fees Fund		
Driver's License Special Fees	\$ -	\$ 4,000,000
Weapons Permit Fund	-	765,725
Intra-Agency Funds	<u>26,293</u>	<u>1,924,575</u>
	<u><u>\$ 26,293</u></u>	<u><u>\$ 6,690,300</u></u>
Weapons Permit Fund		
Driver's License Photo Fees	\$ 350,640	\$ -
Driver Service Fees Fund	765,725	-
Intra-Agency Funds	<u>196,595</u>	<u>-</u>
	<u><u>\$ 1,312,960</u></u>	<u><u>\$ -</u></u>
Disability and Relief Fund		
Intra-Agency Funds	<u><u>\$ 912,779</u></u>	<u><u>\$ -</u></u>

State of Mississippi
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Notes to Financial Statements of Funds Selected for Audit
June 30, 2016

	<u>Transfers Out</u>	<u>Transfers In</u>
Driver's License Photo Fees		
Weapons Permit Fund	\$ -	\$ 350,640
Driver's License Special Fees		
Intra-Agency Funds	\$ 1,732,482	\$ 110,000
Driver Services Fees Fund	4,000,000	-
	<u>\$ 5,732,482</u>	<u>\$ 110,000</u>

Note 5: Contingencies

Litigation

DPS is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets and statements of revenues, expenditures and changes in fund balances of DPS. Additionally, under the current financial resources measurement focus and the modified accrual basis of accounting, no contingent liability would be recorded.

**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**

Commissioner Marshall L. Fisher
State of Mississippi
Department of Public Safety
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 funds selected for audit consisting of the Driver Service Fees Fund, the Weapons Permit Fund, the Disability and Relief Fund, the Driver's License Photo Fees Fund and the Driver's License Special Fees Fund of the State of Mississippi Department of Public Safety (DPS), which are comprised of balance sheets as of June 30, 2016, and statements of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 2017, which contained an *Emphasis of Matter* paragraph regarding the entity reflected in the financial statements and an *Other Matter* paragraph regarding the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

Management of DPS is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered DPS' internal control 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 DPS' internal control. Accordingly, we do not express an opinion on the effectiveness of DPS' 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 DPS'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 DPS' 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to DPS' management in a separate letter dated March 15, 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 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 DPS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
March 15, 2017