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STATE OF MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER STATE REVOLVING LOAN FUND

Audited Financial Statements June 30, 2017 (With Comparative Totals for June 30, 2016)

State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund

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Independent Auditor's Report

Commission on Environmental Quality Mississippi Department of Environmental Quality

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund (the Fund), as of and for the year ended June 30, 2017, 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, 2017, 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 Clean Water State Revolving Loan Fund of the Mississippi Department of Environmental Quality, a department 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 Department of Environmental Quality, of which the Clean Water State Revolving Loan Fund is a part.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report, dated November 13, 2017, on our consideration of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Windham and Lacey, PLLC

Wardhe and Long Mic

November 13, 2017

STATE OF MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER STATE REVOLVING LOAN FUND BALANCE SHEET JUNE 30, 2017

ASSETS	_	June 30, 2017	June 30, 2016
Equity in internal investment pool Receivables:	\$	112,628,994	94,934,101
Due from other funds Due from other governments Due from federal government	_	41,404 413,435,520 26,090	18,306 408,760,475 3,363,045
TOTAL ASSETS	\$	526,132,008	507,075,927
LIABILITIES AND FUND BALANCE			
LIABILITIES: Accounts payable Due to other governments Due to other funds	\$	743,529 12,446,738 2,131	10,405,271 94,301
TOTAL LIABILITIES	_	13,192,398	10,499,572
FUND BALANCE: Restricted for recreation and resources development	=	512,939,610	496,576,355
TOTAL FUND BALANCE	_	512,939,610	496,576,355
TOTAL LIABILITIES AND FUND BALANCE	\$_	526,132,008	507,075,927

See accompanying Notes to Financial Statements.

STATE OF MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER STATE REVOLVING LOAN FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE YEAR ENDED JUNE 30, 2017

REVENUES Interest on loops \$ 5.826.004	. ==2 = 10
Interest on loops	
	4,773,740
Interest on investments 1,083,946	941,779
Federal programs <u>8,637,715</u> 8	8,230,460
TOTAL REVENUES 15,558,565 13	3,945,979
EXPENDITURES	
Subsidies 138,267 1	1,652,317
EXCESS OF REVENUES OVER EXPENDITURES 15,420,298 12	2,293,662
OTHER FINANCING SOURCES (USES) Transfers in 11.912.353 9	0 400 611
11,512,000	9,489,611
Transfers out $(10,969,396)$ $(10,969,396)$,071,429)
TOTAL OTHER FINANCING SOURCES (USES) 942,957	(581,818)
EXCESS OF REVENUES AND OTHER FINANCING	
SOURCES OVER EXPENDITURES AND OTHER	
FINANCING USES 16,363,255 11	1,711,844
FUND BALANCE	
Beginning of year 496,576,355 484	4,864,511
End of year \$ 512,939,610 496	6,576,355

See accompanying Notes to Financial Statements.

1. ORGANIZATION AND NATURE OF OPERATIONS OF THE FUND.

The Clean Water State Revolving Loan Fund (the Fund) of the Mississippi Department of Environmental Quality (MDEQ) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act). The Act established the State Revolving Fund (SRF) Program to replace the construction grants program and to provide loans at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management projects. Instead of making grants to political subdivisions that pay for a portion of building wastewater treatment facilities, the Fund provides for low interest rate loans to finance the entire cost of qualified projects. The Fund provides a flexible financing source that can be used for a variety of pollution control projects, including non-point source pollution control projects, and developing estuary conservation and management projects. All loan repayments, including interest and principal, must remain in the Fund.

The Fund was funded by the U.S. Environmental Protection Agency (EPA) by a series of grants starting in 1989. In order to receive a grant, states are required to provide an additional 20 percent of the federal capitalization grant as matching funds. As of June 30, 2017, Congress authorized the EPA to award \$345,397,986 in capitalization grants to the State of Mississippi (the State). The State is required to contribute \$69,079,597 in matching funds. In prior years the State was awarded hardship grants totaling \$1,045,000, which required matching contributions of \$52,250. Hardship grants are maintained in the same fund with capitalization grants, with subsidiary records to account for grant balances and transactions separately. Because all hardship grants have been obligated and paid out to grant recipients, there were no hardship grant payments made for the year ended June 30, 2017.

The Fund is administered by the Commission on Environmental Quality (the Commission) acting through the Construction Branch (the Branch) of the Surface Water Division of the Office of Pollution Control of MDEQ. MDEQ's primary activities include the making of loans for water pollution control facilities and the management and coordination of the Fund. The Commission consists of seven members, all of which are appointed by the Governor.

The Fund does not have any full-time employees. The Fund is administered by employees of the Branch. All employee and related costs are recorded in MDEQ's Office of Pollution Control Operating Fund. Operating costs are reimbursed from the avails of a 5% administrative fee collected from each loan. (See Note 6).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The Fund is included in the State's basic financial statements as a General Fund of the State of Mississippi.

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.

Equity in Internal Investment Pool

Monies of the Fund deposited with the State Treasurer's Office internal investment pool are considered cash and cash equivalents. According to state law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as discussed in Note 3. Therefore, management of the Fund does not have any control over the investment of excess cash.

Due from Other Governments

The State operates the Fund as a direct loan program, whereby loans made to political subdivisions are funded by the federal capitalization grant, the state matching amount, loan repayments and interest earnings. Loan funds are disbursed to the political subdivision as they expend funds for the purposes of the loan and request reimbursement from the Fund. Interest is calculated from the original contract completion date, and after the final disbursement has been made, the principal amount identified in the loan agreement is adjusted for the actual amounts disbursed plus interest accrued during the period between the original construction contract completion date and the initiation of the repayment process.

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 Recreation and Resources Development due to federal grant requirements, bond issuance provisions, and state and federal legislation.

Comparative Data

Comparative prior year totals have been presented in the accompanying financial statements to provide an understanding of the change in the Fund's financial condition and operations and are not intended to be a complete presentation of the prior year financial statements in accordance with accounting principles generally accepted in the United States of America.

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 MDEQ'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, 2017, the State's total pooled deposits and investments for State Agencies were approximately \$3.45 billion, and the average remaining life of the securities invested was 3.73 years. The earnings for the total special funds pooled investments for the year ended June 30, 2017 were approximately \$23.3 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, 2017, the Fund had approximately \$112.6 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.

4. DUE FROM OTHER GOVERNMENTS AND CREDIT RISK.

The Fund makes loans to qualified political subdivisions for projects that meet the eligibility requirements of the Act. Loans are financed by capitalization grants, state match, loan repayments and interest earnings. Interest rates on loans vary between 1.75% and 4.5%, and are generally repaid over 20 years starting within one year after the project is completed. Details of loans receivable as of June 30, 2017, are discussed below:

In the event of a default on a loan obligation by a public entity, MDEQ has certain legal remedies available that provide for ultimate collection of amounts due.

Loans by Category

Due from other governments at June 30, 2017, is as follows:

	Loans Authorized	Authorized Amount Remaining	Cumulative Repayments	Balance
Completed projects Projects in progress	\$ 727,579,535 106,417,210	61,769,841	358,791,384	368,788,151 44,647,369
Totals	\$ 833,996,745	61,769,841	358,791,384	413,435,520
Less amount due within one year on completed projects				(27,530,711)
Due from other governments, long-term			9	385,904,809

Loans mature at various intervals through June 30, 2037. The scheduled principal payments on loans maturing in subsequent years are as follows:

Year Ending June 30:	Amount
2018	\$ 27,530,711
2019 2020	26,784,323 26,601,107
2021 2022	26,943,391 26,784,032
Thereafter	278,791,956
Total	\$ <u>413,435,520</u>

Major Loans to Political Subdivisions

As of June 30, 2017, the Fund had made loans to 31 local agencies that, in the aggregate, exceeded \$5,000,000 for each local agency. The outstanding balances of these loans represent approximately 77% of the total loans receivable, as follows:

Local Agency	 Authorized Loan Amount	Loan Receivable Balance at June 30, 2017
Desoto County WWA	\$ 63,179,923	24,233,612
City of Jackson	55,492,346	22,487,998
City of Tupelo	48,238,678	24,793,361
City of Greenwood	47,957,324	44,286,031
City of McComb	38,072,547	27,443,368
City of Corinth	35,933,827	28,353,930
City of Gulfport	34,277,693	18,691,101
West Rankin Utility Authority	30,848,513	17,707,233
Hancock County WW	20,172,273	16,380,135
City of Clinton	19,506,557	9,214,711
City of Cleveland	17,103,461	3,597,318
Jackson County UA	16,102,022	6,488,625
City of Laurel	15,512,145	10,814,462
West Jackson County Utility	14,280,283	2,938,356
Pearl River County UA	13,710,547	7,471,542
Harrison County WW	13,394,411	1,048,309
City of Southaven	12,227,822	11,104,475
City of Biloxi	11,482,897	6,738,586
City of Brandon	11,261,087	3,610,851
City of West Point	9,996,954	7,094,839
City of Meridian	8,955,225	0
City of Oxford	8,813,809	5,929,798
City of Vicksburg	7,830,683	2,382,611
City of Waveland	7,566,428	0
Horn Lake	7,087,343	1,208,452
City of Pontotoc	6,408,591	2,794,690
City of Clarksdale	6,352,078	3,757,666
City of Moss Point	5,657,673	2,809,867
City of Hattiesburg	5,650,110	144,015
City of Gautier	5,454,626	2,929,233
Madison County WW Authority	5,250,790	3,283,513
Totals	\$ 603,778,666	319,738,688

The authorized loan amount includes both completed projects and projects in progress. As of June 30, 2017, cumulative principal repayments on completed projects from the above local agencies total \$174,622,702 and amounts remaining to be disbursed on projects in progress total \$81,829,349.

5. GRANT AWARDS.

The Fund is funded by grants from the EPA authorized by Title VI of the Act, matching funds from the State, loan repayments and interest earnings. All funds drawn are recorded as grant awards from the EPA. As of June 30, 2016, the EPA has awarded capitalization and hardship grants of \$346,442,986 to the State, of which \$321,516,537 has been drawn for loans and administrative expenses.

The following summarizes the capitalization grants awarded, amounts drawn on each grant and balances available for future loans:

			Draws		Draws	
		Grant	Through	2017	Through	Available
Year		Amount	6/30/2016	Draws	6/30/2017	6/30/2017
1989	\$	15,254,024	15,254,024		15,254,024 15,780,824	
1990		15,780,824	15,780,824			
1991		19,512,358	19,512,358		19,512,358	
1992		17,505,576	17,505,576		17,505,576	
1993		17,316,882	17,316,882		17,316,882	
1994		10,744,965	10,744,965		10,744,965	
1995		11,583,952	11,583,952		11,583,952	
1996		18,185,133	18,185,133		18,185,133	
1997		5,572,572	5,572,572		5,572,572	
1998		12,316,944	12,316,944		12,316,944	
1998 Hardship	o	1,045,000	1,045,000		1,045,000	
1999		12,133,044	12,133,044		12,133,044	
2000		12,091,860	12,091,860		12,091,860	
2001		11,984,346	11,984,346		11,984,346	
2002		12,011,076	12,011,076		12,011,076	
2003		11,932,965	11,932,965		11,932,965	
2004		11,940,192	11,940,192		11,940,192	
2005		9,706,600	9,706,600		9,706,600	
2006		7,869,300	7,869,300		7,869,300	
2007		9,708,880	9,708,880		9,708,880	
2008		6,092,700	6,092,700		6,092,700	
2009		6,092,700	6,092,700		6,092,700	
2010		18,357,000	18,357,000		18,357,000	
2011		13,304,000	13,304,000		13,304,000	
2012		9,136,093	9,136,093		9,136,093	
2013		12,028,000	11,834,743	193,257	12,028,000	
2014		12,632,000	528,138	11,388,620	11,916,758	715,242
2015		12,567,000	,	392,793	392,793	12,174,207
2016		12,037,000		,,,,,	0	12,037,000
	•	, , ,				
Totals	\$	346,442,986	309,541,867	11,974,670	321,516,537	24,926,449
Receivable, Ju	ine 3	0 2016		(3,363,045)		
Receivable, Ju				26,090		26,090
.,		•		, <u> </u>		,
Grant revenue	s, m	odified accrual l	basis \$	8,637,715		
Amount availa	able,	modified accru	al basis			\$ 24,952,359
	,					

As of June 30, 2016 and 2017, state matching contributions were as follows:

		Contributions	Fiscal Year	Contributions
		through	2017	through
		6/30/2016	Contributions	6/30/2017
	·			
State of Mississippi	\$	61,776,055	2,394,956	64,171,011

6. ADMINISTRATIVE FEES/COSTS.

In connection with issuing loans to political subdivisions, certain administrative and processing functions are performed by the Construction Branch (the Branch) of the Surface Water Division of the Office of Pollution Control of MDEQ, as discussed in Note 1. To help fund the cost of such functions and MDEQ's indirect costs, a 5% administrative fee is collected from each loan. Until fiscal year 1999, administrative fees were added to the loan principal amount to be repaid by the loan recipient.

However, for all loans made after October 1, 1998, the 5% administrative fee is no longer added to the loan principal to be repaid by the loan recipient. Instead, it is collected through the loan repayment stream. Beginning with the initiation of the repayment process and until such time the total administrative fee is collected, the interest portion of each loan repayment is used to satisfy collection of the administrative fee in lieu of the interest portion. The administrative fees and costs related thereto are recognized on the financial statements of MDEQ's Office of Pollution Control SRF Administrative Fee Fund.

Administrative fees collected for the fiscal year ended June 30, 2017, totaled \$2,243,385 with additional amounts collected for interest totaling \$117,236 and the sale of vehicle totaling \$2,750 for total receipts of \$2,363,371. During that period, \$814,004 was expended from available administrative fee funds for administrative costs of the Fund. An additional \$502,680 was expended for administrative costs and of this amount, \$392,793 was drawn in fiscal year 2017 from the federal government. A total of \$26,090 was drawn after June 30, 2017 from the federal government.

7. CONTINGENCIES.

The Fund is exposed to various risks of loss related to torts, theft of assets, errors or omissions, injuries to State employees while performing Fund business, or acts of God. MDEQ maintains insurance coverage provided by the Mississippi Tort Claims Board for some risk of loss related to the Fund. Since its inception in 1989, there have not been any claims against the Fund.

8. HURRICANE KATRINA LOAN FORBEARANCE.

On August 29, 2005, Hurricane Katrina swept through Mississippi causing widespread destruction, including that to water and sewer operations. Some loan fund projects in progress, as well as, future projects included in the Intended Use Plan were impacted. The current portion of Due from Other Governments and loan repayments due for future years may be delayed if sales tax diversions of impacted areas are placed in abeyance for a period of time or if water and sewer collections from impacted areas are insufficient to support loan repayment schedules. The Commission has granted forbearance of loan repayment for up to eleven years to those water systems. In addition to a forbearance of loan repayments, the Commission will not accrue interest on those loans during the first two years of the forbearance period, or during the entire forbearance period for loans in Hancock County, consistent with State law. Federal and State law were recently amended to allow repayment of loans over a period of up to 30 years. At the end of each approved forbearance period the related loans have been restructured as appropriate. The last two loans which remained in forbearance were each restructured on October 21, 2016, with approximately half of the outstanding principal for each being split into separate loan agreements. Under these restructured loan agreements, repayments resumed on the first half (approximate) of the outstanding principal on January 1, 2017; and, repayments on the remainder of the outstanding principal are set to resume on January 1, 2019.

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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

Commission on Environmental Quality Mississippi Department of Environmental Quality

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 State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund, as of and for the year ended June 30, 2017, and the related notes to the financial statements and have issued our report thereon dated November 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund's internal control to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 Mississippi Department of Environmental Quality Clean Water State Revolving Loan 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Windham and Lacey, PLLC

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November 13, 2017

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

Commission on Environmental Quality Mississippi Department of Environmental Quality

We have audited the financial statements of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund (the Fund) as of and for the year ended June 30, 2017, and have issued our report thereon dated November 13, 2017.

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 Clean Water State Revolving Loan Fund Program for the year ended June 30, 2017. The management of the Clean Water State Revolving Loan Fund Program 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 Clean Water State Revolving Loan Fund Program for the year ended June 30, 2017.

This report is intended for the information and use of management of the Clean Water State Revolving Loan Fund, 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.

Windham and Lacey, PLLC

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November 13, 2017



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

Mississippi Department of Environmental Quality

SELECTED FUND FINANCIAL STATEMENTS AND SCHEDULE OF ANALYSIS OF CHANGES IN ACCRUED COMPENSATED ABSENCES

June 30, 2017



Mississippi Department of Environmental Quality Table of Contents June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Mississippi Department of Environmental Quality Jackson, Mississippi

Report on the Financial Statements of Selected Funds

We have audited the accompanying financial statements of State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 of the Mississippi Department of Environmental Quality as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial 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.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 of the Mississippi Department of Environmental Quality as of June 30, 2017, 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 State Treasury Funds 2247100000, 3358100000, 3358600000, 5358600000, and 5358900000 of the Mississippi Department of Environmental Quality, 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 Department of Environmental Quality, of which State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 are a part.

Other Matter

Required Supplementary Information

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2018, on our consideration of the Mississippi Department of Environmental Quality'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 for the selected funds. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mississippi Department of Environmental Quality's internal control over financial reporting and compliance.

Caux Rigge & Ingraw, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi January 3, 2018

Mississippi Department of Environmental Quality Balance Sheets – Funds Selected for Audit

June 30, 2017	2	Fund 247100000	2	Fund 3358100000		Fund 3358400000		Fund 3358600000	Fund 5358600000	E :	Fund 358900000
Julie 30, 2017		24/100000	_	33810000		3330400000	_	3338000000	3338000000	J.	38300000
Assets											
Equity in state treasury funds	\$	627,171	\$	-	\$	43,602,283	\$	5,849,365	\$ (8,079,555)	\$	*
Accounts receivable, net of											
allowances		•		Q.		70,871		401,799	1,290,523		•
Due from other funds				*		16,072		912,548	117,900		476,483
Due from other government						3€			2,710,788		
Total assets	\$	627,171	\$	•	\$	43,689,226	\$	7,163,712	\$ (3,960,344)	\$	476,483
l intiliainn											
Liabilities											
Accounts payable and	Ļ	105 022	Ļ		,	1 271 000	,	1 214 226	ć 2,752,72c	,	
accrued expenses	\$	195,833	\$	-	\$		>	1,314,326	\$ 2,753,736	\$	476 402
Due to other funds		440		-		778,662		241,379	282,186		476,483
Due to other government		38,175		? = .:		640,237		11,352	9,588		1+1
Due to component units		37,275		17.0		2.5€			54,511		-
Funds held for others	_	•	_	•	_	•	_	154,789			
Total liabilities		271,723				2,689,908		1,721,846	3,100,021		476,483
D. () () ()											
Deferred Inflows of Resources											
Unavailable revenue - fines,						20.000		10 703	000 000		
penalties and assessments			-		_	26,069	_	10,792	968,653	_	- 1
Fund Balances											
Unassigned (deficit)						19 .0 7			(8,029,018)		
Committed for recreation											
and resources development		355,448				Œ					
Restricted for recreation		,									
and resources development				-		40,973,249		5,431,074	~		
9							Ī				
Total Liabilities, Deferred											
Inflows of Resources and											
Fund Balances	\$	627,171	\$		\$	43,689,226	\$	7,163,712	\$ (3,960,344)	\$	476,483

Mississippi Department of Environmental Quality Statements of Revenues, Expenditures and Changes in Fund Balance – Funds Selected for Audit

V	Fund	Fund	Fund	Fund	Fund	Fund
Year ended June 30, 2017	2247100000	3358100000	3358400000	3358600000	5358600000	5358900000
Revenues						
Taxes:						
Gasoline and other motor						
fuel	\$ -	\$ -	\$ 8,401,591	\$	\$ -	\$
Licenses, fees and permits	- 2	547	12,834,386	13,935		
Other fines and penalties	(€	3*:	*	-		
Federal sources	2	,	70	3,351,730	14,073,673	
Investment income	=	4	486,322	3.	*	
Charges for sales and services	=		3,758	159,444	14,947	·
Miscellaneous revenue	- 8		42,389	1,499,070	11,048,661	
Total revenues	_ <u>¥</u>	(3)	21,768,446	5,024,179	25,137,281	
Expenditures						
Current:						
Salaries	7,698,498		3,295,686	3,530,903	7,232,365	120
Travel	150,251		37,960	56,672	194,516	*
Contractuals	935,130	(4)	619,217	2,074,026	12,394,748	
Commodities	353,415	-	51,660	174,205	248,905	160
Capital outlay	280,335	*	31,018	302,686	376,381	*
Subsidies	242,377	68,673	8,331,271	764,842	3,352,268	7,646,564
Indirect costs	-				3,373,913	*
Total expenditures	9,660,006	68,673	12,366,812	6,903,334	27,1 7 3,096	7,646,564
Excess of Revenues Over						
(Under) Expenditures	(9,660,006)	(68,673)	9,401,634	(1,879,155)	(2,035,815)	(7,646,564)
(Onder) Expenditures	(3,000,000)	(00,073)	3,401,034	(1,073,133)	(2,033,013)	(1,040,304)
Other Financing Sources (Uses)						
Transfers from other funds	10,152,688		400,000	5,484,282	546,830	7,653,399
Transfers to other funds	•	_ •	(4,668,699)	(3,739,732)	(281,774)	(6,835)
Total other financing						
sources (uses)	10,152,688		(4,268,699)	1,744,550	265,056	7,646,564
Sources (uses)	10,132,088		(4,200,033)	1,744,330	203,030	7,040,304
Excess of Revenues Over						
(Under) Expenditures						
and Financing Sources						
(Uses)	492,682	(68,673)	5,132,935	(134,605)	(1,770,759)	8
Fund Balance - Beginning	(137,234)	68,673	35,840,314	5,565,679	(6,258,259)	•
Fund Balance - Ending	\$ 355,448	\$ -	\$ 40,973,249	\$ 5,431,074	\$ (8,029,018)	\$

See independent auditors' report and notes to financial statements of funds selected for audit.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying selected fund financial statements of the Mississippi Department of Environmental Quality (the "Agency") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The Agency applies all applicable GASB pronouncements.

Financial Reporting Entity

The Agency is reported as a state agency in the State of Mississippi's Comprehensive Annual Financial Report. The selected funds presented in these financial statements are part of the larger entity that in whole comprises the financial reporting entity of the Agency. Treasury Fund 2247100000 is the general appropriation fund for the Agency and accounts for the operations of the Agency. Treasury Fund 3358100000 accounts for the Deepwater Horizon oil spill funds transferred in from the Department of Marine Resources. Treasury Fund 3358400000 accounts for the Office of Pollution Control's special funds that are eligible to earn interest, which includes but is not limited to the groundwater protection fee on motor fuels, air operating permit program, asbestos abatement and accreditation program, comprehensive waste minimization, and the environmental protection trust to develop nonhazardous waste corrective action plans. Treasury Fund 3358600000 is primarily for the administration of delegated programs such as the Clean Air Act, Clean Water Act, Comprehensive Environmental Response, Compensation and Liability Act, and Resource Conservation and Recovery Act. These programs form the basis of the Agency's monitoring, permitting, and compliance efforts. Treasury Fund 5358600000 is the designated fund to account for air and water pollution grants received from the federal government or federal funds transferred in from another state agency. Treasury Fund 5358900000 for the HUD/MDA sub-grant funds provides funds for planning, emergency grants to local governments and administrative expenses of the Agency.

Measurement Focus and Basis of Accounting

Governmental fund financial statements are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are generally included on the balance sheet. Under this method, revenues are recognized when measurable and available to finance operations of the current fiscal year. Available means collectible within the current year or soon enough after fiscal year-end to liquidate liabilities existing at the end of the fiscal year. The Agency considers revenues received within 60 days after fiscal year-end as available. Significant revenue sources that are susceptible to accrual include federal grants. Other miscellaneous revenues are recognized when received since they normally are measurable only at that time. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The selected funds for the Agency are reported as general funds. General fund balances are legally restricted to expenditures for specific purposes such as certain federal grant programs, taxes levied with statutorily defined distributions, and other resources restricted as to purpose.

Cash and Cash Equivalents

Cash and cash equivalents includes demand deposits accounts and equity in State Treasury funds. Equity in State Treasury funds consists of pooled cash held by the Treasurer of the State of Mississippi.

Receivables

Receivables represent amounts due to the Agency for revenues earned that will be collected sometime in the future. Receivables are reported net of allowances for uncollectible accounts of \$70,871, \$401,799 and \$1,290,523 for Funds 3358400000, 3358600000 and 5358600000, respectively.

Interfund Activity

In the selected fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures of the disbursing fund. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Transfers represent flows of assets between funds of the Agency without equivalent flows of assets in return and without a requirement for payment.

Deferred Inflows of Resources

In addition to liabilities, the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents items that are unavailable revenues that will not be recognized as an inflow of resources until future period(s) when they become available. The governmental funds report unavailable revenues from three sources: fines, penalties and assessments.

Fund Balances

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions provides fund balance categories to make the nature and extent of the constraint placed on a government's fund balances more transparent.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The classifications used in the selected governmental fund financial statements are based on the following methodology:

<u>Committed</u> - This includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

<u>Restricted</u> – This classification includes amounts for which constraints have been placed on the use of the resources by law through constitutional provisions or enabling legislation.

<u>Unassigned</u>— This classification includes amounts for which no constraints have been applied to the use of funds.

Federal Grants

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 these estimates.

Subsequent Events

In connection with the preparation of the financial statements, management of the Agency has evaluated subsequent events through December 20, 2017, which is the date the financial statements were available to be issued.

NOTE 2: INTERFUND TRANSACTIONS

Interfund transfers consisted of the following:

			Transfers	to	Fund	
June 30, 2017	3358400000	:	3358600000	5	358600000	5358900000
Transfers within MDEQ Funds	\$ 4,668,699	\$	3,565,177	\$	-	\$
Department of Finance and Administration	· •		174,555		1	-
Department of Marine Resources	-		-		220,979	-
Soil and Water Conservation Commission	₹#		¥		60,795	*1
Mississippi Development Authority	(5)					6,835
Totals	\$ 4,668,699	\$	3,739,732	\$	281,774	\$ 6,835

8	Transfers from Fund									
June 30, 2017	224	7100000		3358400000		3358600000		5358600000		5358900000
Transfers within MDEQ Funds	\$		\$	400,000	\$	5,484,282	\$	457,259	\$	
Department of Finance and Administration	10,	152,688						120		
MS Emergency Management Agency				-		%		89,571		
Mississippi Development Authority										7,653,399
Totals	\$ 10,	152,688	\$	400,000	\$	5,484,282	\$	546,830	\$	7,653,399

Interfund transfers are primarily used to move revenues from funds required to collect them to funds required to expend them.

Due to/from other funds consisted of the following:

				D	ue to Fund			
June 30, 2017	2	2247100000	3358400000		3358600000	5358600000	_ 5	358900000
Due to funds within MDEQ	\$	440	\$ 778,662	\$	241,379	\$ 412	\$	476,483
Mississippi Development Authority		<u>=</u> 1						
Department of Marine Resources		•	•		•	220,979		
Soil and Water Conservation Commission						60 <u>,7</u> 95		
Totals	\$	440	\$ 778,662	\$	241,379	\$ 282,186	\$	476,483

	Due from Fund									
June 30, 2017	3	358400000		3358600000		5358600000		5358900000		
Due from funds within MDEQ	\$	-	\$	912,548	\$	28,329	\$			
Department of Finance and Administration		16,072				.4		Ŧ		
MS Emergency Management Agency		-		-		89,571				
Mississippi Development Authority					_			476,483		
Totals	\$	16,072	\$	912,548	\$	117,900	\$	476,483		

NOTE 2: INTERFUND TRANSACTIONS (Continued)

Due to/from other funds result primarily from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made. All balances are expected to be received or paid during fiscal year 2018.

NOTE 3: DEPOSITS

Section 27-105-5, Mississippi Code Ann. (1972), authorizes the State Treasurer to implement a statewide collateral pool program which secures all state and local public funds deposits through a centralized system of pledging securities to the State Treasurer. The program requires the State Treasurer as pledgee of all public funds to monitor the security portfolios of approved financial institutions and ensure public funds are adequately secured.

Section 27-105-5, Mississippi Code Ann. (1972), establishes the requirements for a financial institution to be approved as a qualified public funds depository. Generally, financial institutions make annual application to the State Treasurer for state funds by signing a contract and supplying the financial report as provided to its regulatory authority to assure the statutorily required 5.5% primary capital to total assets ratio. When so approved by the State Treasurer, the financial institution is required to place on deposit with the State Treasurer collateral equal to at least 105% of the amount of public funds on deposit in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Collateral may be held by a third party custodian, with approval of the State Treasurer, if conditions are met which protect the state's interests.

Custodial credit risk is the risk that in the event of the failure of a financial institution, the government will not be able to recover deposits or collateral securities that are in the possession of an outside party. Deposits above FDIC overage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the Agency. All deposited funds of the Agency are fully collateralized in accordance with state statutes.

NOTE 4: ACCOUNTS RECEIVABLE

Receivables as of year-end for the Funds, including the applicable allowances for uncollectible accounts, are as follows:

		Fund		Fund	Fund
June 30, 2017	33	58400000	33	358600000	5358600000
Gross receivables		584,470		6,337,749	1,290,523
Allowance for uncollectible accounts		(513,599)	(<u>5,935,950)</u>	
Net total accounts receivable	\$	70,871	\$	401,799	\$ 1,290,523

NOTE 5: RETIREMENT PLAN

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

Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information.

That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

PERS members are required to contribute 9.00% of their annual covered salary and the Agency is required to contribute at an actuarially determined rate. The current rate is 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.

NOTE 6: CONTINGENCIES

Federal Grants

The Agency has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the Agency. The Agency estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition. As of the report date, all costs have been funded through grant proceeds or legislation.

NOTE 6: CONTINGENCIES (Continued)

Litigation

The Agency is party to various legal proceedings that arise in the normal course of governmental operations. The State's legal counsel believes that they will be successful in defending the Agency in a majority of these cases. In the event they are not successful in defending such cases, the State's opinion is that the ultimate disposition of these matters will not have a material adverse effect on the financial position or changes in financial position of the Agency.



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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF ANALYSIS OF CHANGES IN ACCRUED COMPENSATED ABSENCES

Mississippi Department of Environmental Quality Jackson, Mississippi

Report on the Schedule Analysis of Changes in Accrued Compensated Absences

We have audited the accompanying Schedule of Analysis of Changes in Accrued Compensated Absences of the Mississippi Department of Environmental Quality for the year ended June 30, 2017, and the related notes to the schedule.

Management's Responsibility for the Financial Statements

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 Analysis of Changes in Accrued Compensated Absences that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of 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 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 schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

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

Opinion

In our opinion, the Schedule of Analysis of Changes in Accrued Compensated Absences referred to above present fairly, in all material respects, the changes in accrued compensated absences of the Mississippi Department of Environmental Quality as of June 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The Schedule of Analysis of Changes in Accrued Compensated Absences referred to above is intended to present only the changes in accrued compensated absences of the Mississippi Department of Environmental Quality, an agency of the State of Mississippi. This schedule is not intended to present the financial position and results of operations for the State of Mississippi or the Mississippi Department of Environmental Quality.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2018 on our consideration of the Mississippi Department of Environmental Quality's internal control over the reporting of 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 reporting of accrued compensated absences and compliance and the results of that testing, and not to provide an opinion on internal control over the reporting of accrued compensated absences or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Carr, Riggs & Ingram, L.L.C.
CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi January 3, 2018

Mississippi Department of Environmental Quality Schedule of Analysis of Changes in Accrued Compensated Absences

For the year ended June 30, 2017	
Accrued Compensated Absences:	
Beginning Balance	\$ 2,085,689
Additions	1,201,957
Deletions	(1,223,500)
Ending Balance	\$ 2,064,146

Mississippi Department of Environmental Quality Notes to Schedule of Analysis of Changes in Accrued Compensated Absences

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accumulated Compensated Absences

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

NOTE 2: COMPENSATED ABSENCES

The Department's liability for compensated absences at June 30, 2017, is \$2,064,146 for governmental activities. The report liability includes related fringe benefits and excludes any obligations related to leave accumulations in excess of 30 days per employee.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mississippi Department of Environmental Quality Jackson, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 of the Mississippi Department of Environmental Quality (the "Agency") as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated January 3, 2018. We have also audited the schedule of analysis of changes in accrued compensated absences (the "Schedule") of the Agency as of and for the year ended June 30, 2017, and have issued our report thereon dated January 3, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 and the Schedule, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements and schedule, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control that we consider to be material weaknesses as described below:

During our audit, we sampled several invoices and tested for proper accrual. Multiple invoices, both material and non-material to the financial statements missed the cutoff period and were not accrued as of June 30, 2017; as a result, these invoices were posted as expenses in fiscal year 2018. Audit adjustments were posted totaling approximately \$1,680,000 to accrue these amounts. All amounts posted were a result of invoices being received very late from vendors or from various departments within the Agency not remitting invoices timely to the central office to be processed by the accounting department.

CRI recommends procedures be put into place in which Agency personnel can make a reasonable effort to obtain invoices from vendors in a timely manner and submit them to the accounting department for processing.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements for State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CARR, RIGGS & INGRAM, LLC

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Ridgeland, Mississippi January 3, 2018