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**Mississippi State Department of Health**  
**Special Revenue Fund – Fund 3330100000**  
Independent Auditor's Reports and Financial Statements  
June 30, 2017



# Mississippi State Department of Health

Special Revenue Fund – Fund 3330100000

June 30, 2017

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## Independent Auditor's Report

Betty Jane Phillips, 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) which are comprised of a balance sheet as of June 30, 2017, and a statement of revenues, expenditures and changes in fund balance and the related notes to the financial statements for the year then ended, 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 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.

Betty Jane Phillips, M.D.  
Audit Committee Chairman  
Mississippi State Department of Health  
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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Special Revenue Fund – Fund 3330100000 of MSDH as of June 30, 2017, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in *Note 1*, the financial statements present only the Special Revenue Fund – Fund 3330100000 and do not purport to, and do not, present fairly the financial position of MSDH as of June 30, 2017, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2018, 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  
February 9, 2018

# Mississippi State Department of Health

## Special Revenue Fund – Fund 3330100000

### Balance Sheet

June 30, 2017

#### Assets

Cash with state treasury	\$ 28,125,461
Receivables	148,156
Due from other governments	277,578
Due from other state funds	9,447,168
Inventories	<u>6,065,885</u>
Total assets	<u><u>\$ 44,064,248</u></u>

#### Liabilities and Fund Balance

##### Liabilities

Due to other state funds	\$ 64,428
Accounts payable and accrued expenditures	1,833,967
Due to other governments	<u>61,772</u>
Total liabilities	<u>1,960,167</u>

##### Fund Balance

Nonspendable	
Inventories	6,065,885
Restricted	
General government - health	<u>36,038,196</u>
Total fund balance	<u>42,104,081</u>
Total liabilities and fund balance	<u><u>\$ 44,064,248</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, 2017**

**Revenues**

Federal government	\$ 8,030,108
Licenses, permits and fees	23,049,147
Charges for sales and services	10,371,992
Transfers in from other state funds	23,195,840
Other	<u>686,423</u>

Total revenues	<u>65,333,510</u>
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**Expenditures**

Salaries	30,662,353
Travel	1,973,054
Contractuals	8,920,531
Capital outlay	326,679
Transfers out to other state funds	229,357
Commodities	5,484,511
Subsidies	<u>1,627,462</u>

Total expenditures	<u>49,223,947</u>
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Net Increase in Fund Balance	16,109,563
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Fund Balance - Beginning of Year	<u>25,994,518</u>
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Fund Balance - End of Year	<u><u>\$ 42,104,081</u></u>
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# **Mississippi State Department of Health**

## **Special Revenue Fund – Fund 3330100000**

### **Notes to Financial Statements**

**June 30, 2017**

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

##### ***Nature of Operations and Reporting Entity***

The Mississippi State Department of Health (MSDH) 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 MSDH 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, 2017, 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, 2017

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, 2017**

#### ***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, 2017, 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.

# Mississippi State Department of Health

## Special Revenue Fund – Fund 3330100000

### Notes to Financial Statements

June 30, 2017

#### ***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 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 will be presented in the State of Mississippi CAFR for the year ended June 30, 2017.

At June 30, 2017, none of the fund's deposits were exposed to custodial credit risk.

#### **Note 3: Transactions with Other State Funds**

At June 30, 2017, receivables and payables from other state funds, including other MSDH funds, consisted of:

	<b>Receivables</b>	<b>Payables</b>
Governmental funds		
General fund	\$ 9,447,168	\$ 64,428

**Mississippi State Department of Health**  
**Special Revenue Fund – Fund 3330100000**  
**Notes to Financial Statements**  
**June 30, 2017**

At June 30, 2017, transfers with other state funds, including other MSDH funds, consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds		
Nonmajor governmental funds	\$ 23,195,840	\$ 229,357

**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, 2017, 2016 and 2015, equaled the required contributions and are summarized as follows, rounded to the near thousand:

	<u>MSDH</u>	<u>Employee</u>
2017	\$ 3,800,000	\$ 2,179,000
2016	3,900,000	2,229,000
2015	4,525,000	2,586,000

**Mississippi State Department of Health**  
**Special Revenue Fund – Fund 3330100000**  
**Notes to Financial Statements**  
**June 30, 2017**

**Note 5: Commitments**

MSDH has entered into several noncancelable leases for office space. Rent expense associated with these leases totaled approximately \$530,000 for the year ended June 30, 2017. Future minimum lease payments at June 30, 2017, consist of the following:

2018	\$ 488,427
2019	481,233
2020	481,233
2021	140,583
2022	<u>57,010</u>
	<u>\$ 1,648,486</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 2017, 12% of MSDH's Fund 3330100000 revenues were provided by the federal government through indirect cost recovery.

**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**

Betty Jane Phillips, 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, 2017, and the related statement of revenues, expenditures and changes in fund balance and the related notes to the financial statements for the year then ended, and have issued our report thereon dated February 9, 2018, which contained 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 2017-025 to be a material weakness.

Betty Jane Phillips, M.D.  
Audit Committee Chairman  
Mississippi State Department of Health  
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### ***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*.

We noted certain matters that we reported to MSDH's management in a separate letter dated February 9, 2018.

### ***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  
February 9, 2018



**Mississippi State Department of Health**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2017**

<i>Reference Number</i>	<i>Finding</i>
2017-025	<p><b>Criteria or Specific Requirement</b> – 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><b>Condition</b> – MSDH’s procedures to ensure all significant revenue related to 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><b>Effect</b> – As a result, a material current year audit adjustment was recorded related to services provided through the clinics.</p> <p><b>Cause</b> – 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><b>Recommendation</b> – 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 (cash collected and contractual allowances) to recorded estimates.</p> <p><b>View of Responsible Officials and Planned Corrective Actions</b> – MSDH is currently working to procure software for the clinics that will streamline the process of tracking outstanding patient balances for the clinics to facilitate the above recommendations.</p>

# **Mississippi State Department of Health**

## **Schedule of Changes in Accrued Compensated Absences**

June 30, 2017



**Mississippi State Department of Health**  
**Schedule of Changes in Accrued Compensated Absences**  
**June 30, 2017**

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## Independent Auditor's Report

Betty Jane Phillips, 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, 2017, 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.

Betty Jane Phillips, M.D.  
Audit Committee Chairman  
Mississippi State Department of Health  
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### ***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, 2017, in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2018, 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  
February 9, 2018

**Mississippi State Department of Health**  
**Schedule of Changes in Accrued Compensated Absences**  
**Year Ended June 30, 2017**

**Accrued Compensated Absences**

Beginning balance	\$ 7,168,269
Additions	3,695,581
Deletions	<u>(4,102,904)</u>
Ending balance	<u><u>\$ 6,760,946</u></u>

**Mississippi State Department of Health**  
**Notes to Schedule of Changes in Accrued Compensated Absences**  
**Year Ended June 30, 2017**

**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**

Betty Jane Phillips, 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, 2017, and have issued our report thereon dated February 9, 2018.

***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



Betty Jane Phillips, M.D.  
Audit Committee Chairman  
Mississippi State Department of Employment Security  
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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  
February 9, 2018

## **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, 2017



# Mississippi State Department of Health

June 30, 2017

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

Betty Jane Phillips, 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, 2017, 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 Schedule.

Betty Jane Phillips, M.D.  
Audit Committee Chairman  
Mississippi State Department of Health  
Page 2

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, 2017, in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2018, 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  
February 9, 2018

**Mississippi State Department of Health**  
**Schedule of Expenditures of Federal Awards – Programs Audited**  
**Year Ended June 30, 2017**

<b>Federal Grantor/ Pass-through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b>Fund 5331400000</b>			
<b>U.S. Department of Agriculture</b>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 3,082,529	\$ 70,928,931
Total for WIC		3,082,529	70,928,931
<b>U.S. Department of Health and Human Services</b>			
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	1,704,640	8,775,969
Total for HPP/PHEP		1,704,640	8,775,969
Total Expenditures of Direct Federal Awards - Programs Audited		\$ 4,787,169	\$ 79,704,900

**Mississippi State Department of Health**  
**Notes to Schedule of Expenditures of Federal Awards – Programs Audited**  
**June 30, 2017**

**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, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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**

Betty Jane Phillips, 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, 2017, and have issued our report thereon dated February 9, 2018.

***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  
February 9, 2018

**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***

Betty Jane Phillips, 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, 2017.

***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, 2017.

**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 2017-026, that we consider to be a significant deficiency. MSDH's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan.

Betty Jane Phillips, M.D.  
Audit Committee Chairman  
Mississippi State Department of Health  
Page 9

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  
February 9, 2018

**Mississippi State Department of Health**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2017**

***Summary of Auditor's Results***

*Schedule of Expenditures of Federal Awards – Programs Audited*

1. The type of report the auditor issued on whether the schedule audited was 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, 2017**

7. The Programs Audited were:

<b>Cluster/Program</b>	<b>CFDA Number</b>
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, 2017**

***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
2017-026	<p><b><i>Federal Program</i></b> – Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, Award Year 2016-2017, U.S. Department of Agriculture;  Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements, CFDA 93.074, Award Year 2016-2017, U.S. Department of Health and Human Services</p> <p><b><i>Criteria</i></b> – Title 2 U.S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (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><b><i>Condition</i></b> – During our testing, we noted the Mississippi State Department of Health (MSDH) 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 2017, with the exception that service code 15 was removed in 2016. 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:</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>	None

**Mississippi State Department of Health**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2017**

Reference Number	Finding	Questioned Costs
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- 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 was listed as OT.
- There was no supervisory review of the relative value table for the last several years.

**Context** – MSDH does not have the proper internal controls to ensure the data obtained and maintained is complete and accurate for relative value tables.

**Effect** – Failure to modify inaccurate relative values data could result in the misallocation of federal funds and questioned costs. MSDH may then be subject to repaying a portion of the grants, be levied fines and penalties, and potentially lose future grant awards.

**Cause** – MSDH did not update the relative value tables in response to the prior year finding.

**Repeat Finding** – Yes, 2016-44

**Recommendation** – We recommend MSDH strengthen internal controls to ensure sufficient application, monitoring and oversight of time study policies and procedures.

**Views of Responsible Officials and Planned Corrective Actions** – 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.



**Mississippi State Department of Health**  
**Schedule of Prior Findings and Questioned Costs**  
**Year Ended June 30, 2017**

Reference Number	Summary of Finding	Status
2016-44	<p><b><i>Federal Program</i></b> – 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><b><i>Criteria or Specific Requirement</i></b> – Controls should be strengthened over allowable costs/cost principles for the time study system.</p> <p><b><i>Condition</i></b> – 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>	<p>Partially corrected.  See unresolved sections at finding 2017-026</p>



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

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

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

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# Windham and Lacey, PLLC

*Certified Public Accountants*

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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, 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

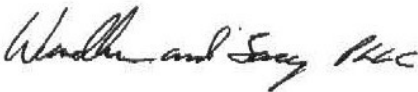
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United 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 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 15, 2017, 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 15, 2017

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, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)

ASSETS	<u>2017</u>	<u>2016</u>
Equity in internal investment pool	\$ 80,455,583	75,389,305
Receivables:		
Loans receivable	54,958,633	57,026,194
Due from other governments	104,678,205	102,756,049
Due from federal government	1,134,928	864,562
Due from other funds	<u>29,680</u>	<u>114,138</u>
TOTAL ASSETS	\$ <u>241,257,029</u>	<u>236,150,248</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Warrants payable	\$ 416	196,019
Accounts payable	510,053	508,127
Due to other funds	74,309	124,882
Due to local governments	<u>1,583,724</u>	<u>2,162,999</u>
TOTAL LIABILITIES	<u>2,168,502</u>	<u>2,992,027</u>
FUND BALANCE:		
Restricted for health and social service	<u>239,088,527</u>	<u>233,158,221</u>
TOTAL FUND BALANCE	<u>239,088,527</u>	<u>233,158,221</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>241,257,029</u>	<u>236,150,248</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, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)

	<u>2017</u>	<u>2016</u>
REVENUES		
Interest on loans	\$ 2,229,147	2,493,887
Interest on investments	814,791	654,715
Loan administration fee	976,353	799,672
Federal programs	<u>6,117,760</u>	<u>9,491,161</u>
TOTAL REVENUES	<u>10,138,051</u>	<u>13,439,435</u>
EXPENDITURES		
Administrative expenses	316,984	599,545
Principal forgiveness - Other	<u>3,613,169</u>	<u>1,597,968</u>
TOTAL EXPENDITURES	<u>3,930,153</u>	<u>2,197,513</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>6,207,898</u>	<u>11,241,922</u>
OTHER FINANCING SOURCES (USES)		
Transfers, net	<u>(277,592)</u>	<u>(39,290)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(277,592)</u>	<u>(39,290)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	5,930,306	11,202,632
FUND BALANCE		
Fund Balance - Beginning	<u>233,158,221</u>	<u>221,955,589</u>
Fund Balance - Ending	<u>\$ 239,088,527</u>	<u>233,158,221</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, 2017

**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 2014, 2015, 2016 and 2017, the State legislature authorized a direct appropriation for a portion of the State match and the Board authorized the use of \$521,400 from other funds as additional match funds. As of June 30, 2017, the EPA had awarded \$185,774,566 in capitalization grants to the State, requiring \$37,154,913 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, 2017

**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, 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 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 \$80.5 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  
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**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, 2017, 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, 2017, are as follows:

<u>Description</u>	<u>Loans Authorized</u>	<u>Authorized Amount Remaining</u>	<u>Loan Balance</u>
Completed projects	\$ 249,707,202		147,355,166
Projects in progress	<u>42,051,396</u>	<u>29,769,724</u>	<u>12,281,672</u>
Totals	\$ <u>291,758,598</u>	<u>29,769,724</u>	159,636,838
Less amount due within one year on completed projects			<u>(10,802,087)</u>
Loans receivable and due from other governments, long-term			\$ <u>148,834,751</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:	
2018	\$ 10,802,087
2019	11,602,040
2020	11,348,891
2021	11,420,511
2022	11,198,927
Thereafter	90,982,710
Projects in progress	<u>12,281,672</u>
Total	\$ <u>159,636,838</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 \$976,353 was collected in 2017.

STATE OF MISSISSIPPI  
Department of Health  
Drinking Water Systems Improvements Revolving Loan Fund  
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June 30, 2017

***Major Loans to Drinking Water Systems***

As of June 30, 2017, 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 74.9% of the total loans receivable, as follows:

<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Balance</u>
ACL Water Association	\$ 1,601,571	718,986
Adams County Water Association	2,844,725	1,174,711
Bear Creek Water Association	7,288,691	3,995,725
City of Baldwin	1,938,518	1,711,320
City of Brookhaven	2,500,000	95,925
City of Clinton	5,056,888	3,517,996
City of Columbia	1,741,864	1,816,526
Gautier	2,677,171	1,535,833
City of Hernando	2,177,042	742,921
City of Horn Lake	3,825,927	1,666,024
City of Laurel	4,804,390	4,532,170
Lebanon	2,112,901	551,563
City of Long Beach	1,521,484	415,065
City of Madison	1,957,707	1,857,335
Mt. Gilead	1,539,614	30,929
North Lauderdale WA	1,523,526	
City of Ocean Springs	5,497,240	3,230,435
City of Pearl	4,959,906	3,198,286
City of Port Gibson	2,347,109	2,956,454
City of Ridgeland	2,851,890	2,212,424
City of Southaven	11,270,753	6,153,817
City of Tupelo	10,733,031	8,073,845
City of West Point	1,536,148	601,545
Collinsville Water Association	1,530,000	651,968
Corinth Utilities Commission	47,034,278	36,263,695
Culkin Water District	8,018,007	2,859,280
Fannin Water Association	1,566,435	621,819
Fisher Ferry Water District	3,105,984	815,984
Good Hope Water Association	1,530,817	1,574,763
Greenfield Water Association	2,150,808	1,127,335
Greenwood Utilities	2,949,025	2,694,597
Hilldale Water District	5,406,481	3,826,938
Jackson County Utility Authority	6,281,290	334,750
Lewisburg Water Association	1,948,907	890,901
Town of Morton	2,188,373	1,201,930
Northeast Mississippi Regional Water Supply District	2,677,553	753,011
Pleasant Hill Water Association	1,935,359	3,690
Progress Community Water Association	1,748,791	775,681
Southwest Jones Water Association	1,871,292	1,330,222
Town of Caledonia	3,285,745	2,404,771
Walls Water Association	3,775,222	1,656,028
West Jackson Utility District	13,722,990	8,982,321
	<u>\$ 197,035,453</u>	<u>119,559,519</u>

STATE OF MISSISSIPPI  
Department of Health  
Drinking Water Systems Improvements Revolving Loan Fund  
Notes to Financial Statements  
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**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, 2017, the EPA has awarded capitalization grants of \$185,774,566 to the State, of which \$173,669,660 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, 2016 and 2017, 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, 2017	Available June 30, 2017
		Through June 30, 2016	2017 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	9,340,769	231	9,341,000	0
2013	8,764,000	8,752,496	11,504	8,764,000	0
2014	9,159,000	8,383,346	736,109	9,119,455	39,545
2015	9,099,000	541,089	3,959,747	4,500,836	4,598,164
2016	8,607,000	0	1,139,803	1,139,803	7,467,197
	<u>\$ 185,774,566</u>	<u>\$ 167,822,266</u>	5,847,394	<u>\$ 173,669,660</u>	12,104,906
Receivable, June 30, 2016			(864,562)		
Receivable, June 30, 2017			<u>1,134,928</u>		<u>(1,134,928)</u>
Grant revenues, modified accrual basis			<u>\$ 6,117,760</u>		
Amount available, modified accrual basis					<u>\$ 10,969,978</u>

(Continued)

STATE OF MISSISSIPPI  
Department of Health  
Drinking Water Systems Improvements Revolving Loan Fund  
Notes to Financial Statements  
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As of June 30, 2015 and 2016, state matching contributions were as follows:

<u>Description</u>	<u>Contributions Through June 30, 2016</u>	<u>Fiscal Year 2017 Contributions</u>	<u>Contributions Through June 30, 2017</u>
State of Mississippi	\$ <u>34,919,334</u>	\$ <u>1,721,400</u>	\$ <u>36,640,734</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.



# Windham and Lacey, PLLC

## *Certified Public Accountants*

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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, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2017.

#### **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.

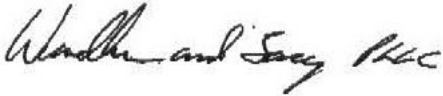
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. **Given these limitations, during our audit we did not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

Windham and Lacey, PLLC  
November 15, 2017

# Windham and Lacey, PLLC

## *Certified Public Accountants*

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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, 2017, and have issued our report thereon dated November 15, 2017.

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

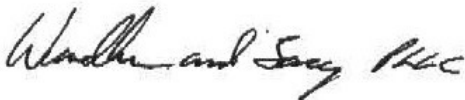
- Activities allowed or unallowed,
- Allowable costs/cost principles,
- Cash management,
- State matching,
- Period of availability of federal funds and binding commitments,
- Procurement, suspension and debarment,
- Program income,
- Reporting,
- Subrecipient monitoring, and
- Special tests and provisions

that are applicable to the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board for the year ended June 30, 2017. 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, 2017.

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 dark ink, appearing to read "Windham and Lacey, PLLC". The signature is fluid and cursive, with the company name written in a stylized manner.

Windham and Lacey, PLLC  
November 15, 2017