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State of Mississippi
Department of Information Technology Services
Financial Statement of Funds Selected for Audit
Independent Auditor's Reports and Financial Statements
June 30, 2017



State of Mississippi
Department of Information Technology Services
Funds Selected for Audit
June 30, 2017

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Independent Auditor's Report

Information Technology Services Board
State of Mississippi
Department of Information Technology Services
Jackson, Mississippi

Report on the Financial Statements of Funds Selected for Audit

We have audited the accompanying financial statements of the ITS General Fund and the Information Technology Services Fund of the State of Mississippi, Department of Information Technology Services (ITS) 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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 ITS General Fund and the Information Technology Services Fund of the State of Mississippi, Department of Information Technology Services as of June 30, 2017, and the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, the financial statements present only the ITS General Fund and the Information Technology Services Fund representing funds selected for audit by the State of Mississippi, Office of the State Auditor and do not purport to, and do not present fairly the financial position of the State of Mississippi, Department of Information Technology Services as of June 30, 2017, the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2018, on our consideration of ITS' 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 ITS' internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
February 9, 2018

State of Mississippi
Department of Information Technology Services
Funds Selected for Audit
Governmental Fund Type
Balance Sheets
June 30, 2017

	ITS General Fund 2260100000	Information Technology Services Fund 3360100000
Assets		
Cash	\$ 2,534,137	\$ -
Total assets	<u>\$ 2,534,137</u>	<u>\$ -</u>
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable	\$ 1,560,517	\$ -
Accrued expenses	400	-
Due to other governments	<u>978</u>	<u>-</u>
Total current liabilities	<u>1,561,895</u>	<u>-</u>
Fund Balances		
Committed to general government	<u>972,242</u>	<u>-</u>
Total fund balances	<u>\$ 2,534,137</u>	<u>\$ -</u>

State of Mississippi
Department of Information Technology Services
Funds Selected for Audit
Governmental Fund Type
Statements of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2017

	ITS General Fund 2260100000	Information Technology Services Fund 3360100000
Revenues		
State appropriation/allotment	\$ 34,087,259	\$ -
Expenditures		
Salaries	9,600,948	-
Travel	60,145	-
Contractuals	26,193,980	-
Commodities	293,867	-
Capital outlay	2,590,841	-
Debt service	522,232	-
Total expenditures	39,262,013	-
Excess of Expenditures Over Revenues	(5,174,754)	-
Other Financing Uses		
Interfund transfers	(400)	(21,655,143)
Other Financing Uses	(400)	(21,655,143)
Net Change in Fund Balances	(5,175,154)	(21,655,143)
Fund Balances, Beginning of Year	6,147,396	21,655,143
Fund Balances, End of Year	\$ 972,242	\$ -

State of Mississippi
Department of Information Technology Services
Funds Selected for Audit
Notes to Financial Statements
June 30, 2017

Note 1: Significant Accounting Policies

Background Information

The State of Mississippi, Department of Information Technology Services (ITS), an agency of the State of Mississippi, follows fund accounting with respect to its funds and pursuant to applicable state statutes. The ITS General Fund No. 226010000 and the Information Technology Services Fund No. 3360100000 (ITS Funds) are governmental fund types. The Information Technology Services Fund No. 3360100000 was converted from an internal service type fund to a governmental fund type on July 1, 2016.

These funds represent funds selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying presentation does not purport to present the financial position, the changes in its financial position or, where applicable, the cash flows of ITS.

Basis of Presentation

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

Account Classifications

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

Basis of Accounting/Measurement Focus

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

State of Mississippi
Department of Information Technology Services
Funds Selected for Audit
Notes to Financial Statements
June 30, 2017

Cash and Cash Equivalents

Cash consists of amounts on deposit with the State Treasury. For purposes of the statement of cash flows, when applicable, ITS considers all highly liquid investments and certificates of deposit to be cash equivalents if they have a maturity of three months or less when acquired. There were no cash equivalents as of June 30, 2017.

Interfund Receivables/Payables

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

Fund Balances – Governmental Funds

The fund balances for ITS’ governmental funds are displayed as applicable in five components.

- ***Nonspendable*** – Amounts that are not in a spendable form or are required to be maintained intact, such as inventories. ITS had no assigned fund balances at June 30, 2017.
- ***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. ITS had no assigned fund balances at June 30, 2017.
- ***Committed*** – Amounts that can be used only for the specific purposes determined by a formal action of the State of 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 resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. ITS had no assigned fund balances at June 30, 2017.
- ***Unassigned*** – The residual classification for the General Fund and includes all amounts not contained in the other classifications. The unrestricted classification is also used to report a deficit balance, resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

State of Mississippi
Department of Information Technology Services
Funds Selected for Audit
Notes to Financial Statements
June 30, 2017

Note 2: Cash and Other Deposits

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

Note 3: Defined Benefit Pension Plan

ITS participates in the Public Employees' Retirement System of Mississippi (PERS) a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS.

During fiscal year 2017, PERS members were required to contribute 9% of their annual covered salary, and ITS is required to contribute at an actuarially determined rate, which was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. ITS' contributions are made at the agency level; therefore, information is not available on contributions by specific funds.

Note 4: Interfund Transfers

The Information Technology Services Fund No. 3360100000 was converted from an internal service type fund to a governmental fund type on July 1, 2016. As a result, its entire fund balance was transferred to other funds of ITS and the State of Mississippi.

**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**

Information Technology Services Board
State of Mississippi
Department of Information Technology Services
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 ITS General Fund and the Information Technology Services Fund of the State of Mississippi, Department of Information Technology Services (ITS) which are comprised of balance sheets as of June 30, 2017, and statements of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 9, 2018, which contained an *Emphasis of Matter* paragraph regarding the entity reflected in the financial statements and an *Other Matter* paragraph regarding the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

Management of ITS is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered ITS' 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 ITS' internal control. Accordingly, we do not express an opinion on the effectiveness of ITS' 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 ITS' 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 audits, 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 ITS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
February 9, 2018