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# Mississippi Department of Employment Security

Financial Statements of General Fund Selected for Audit, Report on Program Specific Audit Under the Uniform Guidance

Year Ended June 30, 2018



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#### INDEPENDENT AUDITORS' REPORT

Executive Director Mark Henry Mississippi Department of Employment Security Jackson, Mississippi

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the General Fund 3367800000 of the Mississippi Department of Employment Security (the "MDES"), which comprise the balance sheet as of June 30, 2018, and the related statement of revenues, expenditures and changes in fund balance and the related notes to the financial statements for the year ended June 30, 2018. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

#### Management's Responsibility for the Financial Statements

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

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 MDES 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 MDES 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 of the General Fund 3367800000 referred to above present fairly, in all material respects, the financial position of the General Fund 3367800000 as of June 30, 2018, and the changes in 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 financial position and changes in financial position for General Fund 3367800000 and do not purport to, or do not, present fairly the financial position of the MDES as of June 30, 2018, or changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### Other Matter

# **Required Supplementary Information**

Management has omitted the Management Discussion and Analysis and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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 11, 2019, on our consideration of the MDES' 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 the MDES' internal control over financial reporting and compliance.

Can Rigge & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi February 11, 2019

June 30, 2018	
Assets	
Cash with state treasury	\$ 452
Cash	9,589,751
Receivables, net	
Due from other funds	7,708
Accounts receivable	6,000,000
Assessments	317,410
Total assets	\$ 15,915,321
Liabilities and Fund Balance	
Liabilities	
Due to other State Treasury funds	\$15,886,966
Total liabilities	15,886,966
Fund balance	
Restricted for workforce enhancement training	28,355
Total liabilities and fund balance	\$ 15,915,321

Mississippi Department of Employment Security (A Department of the State of Mississippi) Statement of Revenues, Expenditures and Changes in Fund Balances of General Fund Selected for Audit

Year ended June 30, 2018	· · · · · · · · · · · · · · · · · · ·
Revenues:	
Assessments	\$ 25,630,204
Other	3,752
Total revenues	25,633,956
Expenditures:	
Transfers to other state funds	25,629,915
Total expenditures	25,629,915
Net increase in fund balance	4,041
Fund balance, beginning of year	24,314
Fund balance, end of year	\$ 28,355

See notes to financial statements of special revenue fund selected for audit.

# NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

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

#### Financial Reporting Entity

MDES is reported as a state agency in the State of Mississippi's Comprehensive Annual Financial Report. The selected funds presented in these financial statements are part of the larger entity that in whole comprises the financial reporting entity of MDES. MDES is a federally-funded state agency and authority to expend funds is granted by the state legislature. The programs of MDES, under the direction of the governor of Mississippi, report to the federal government.

<u>MDES' Special Revenue Fund</u> - Fund 3367800000 is the Workforce Enhancement Training Fund which is a special revenue fund that accounts for payment of monies to the Mississippi Community College Board, the State Workforce Investment Board or Mississippi Works. Through the Workforce Enhancement Training Fund, community colleges partner with businesses to design and implement specialized short-term training programs to teach skills employees need to be productive in their jobs. Funds are provided through Mississippi employer tax assessments.

#### **Basis of Presentation**

The accounting and reporting policies of MDES 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).

MDES' Fund 3367800000 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 3367800000 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2018, 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.

# NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Measurement Focus and Basis of Accounting

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

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

#### **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.

#### Receivables

MDES records accounts receivable at net realizable amounts from employers. MDES 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, 2018, the amount of the allowance was approximately \$589,000.

#### **Risk Management**

MDES 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. MDES has various insurance policies to cover its potential liability risk areas. 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.

# NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

# Activity with Other State Funds

Transactions for services rendered by one state fund, including other MDES 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 MDES 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 (from) other state funds represent flows of assets between funds without equivalent flows of assets in return and without a requirement for payment.

# **Balances with Other State Funds**

Fund 3367800000 is only a part of MDES. Balances with other state funds, including other MDES 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 3367800000 in accordance with budgetary authorizations.

# Fund Balance

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* provides fund balance categories to make the nature and extent of the constraint placed on a government's fund balances more transparent. Fund balances that are restricted for specific purposes by external resource providers or are legally restricted to a specific use or are not available for appropriation or expenditure are reported as restricted. Restrictions may only be changed or lifted with the consent of resource providers. The classifications used in the selected governmental fund financial statements are based on the following methodology:

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

# 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

### NOTE 2: DEPOSITS (Continued)

of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that in the event of a depository failure, the State's deposits may not be returned to it. The Mississippi State Treasurer's Office manages that risk for the State. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the State.

Information regarding the collateralization of deposits held by this pool at June 30, 2018, will be presented in the State of Mississippi CAFR for the year ended June 30, 2018.

At June 30, 2018, none of the fund's deposits were exposed to custodial credit risk.

### NOTE 3: TRANSACTIONS WITH OTHER STATE FUNDS

At June 30, 2018, payables to other state funds, including other MDES funds, consisted of:

Year ended June 30, 2018	
Mississippi Community College Board	\$ 11,912,285
State Workforce Investment Board	794,134
Mississippi Works Fund	3,180,547
	\$ 15,886,966

At June 30, 2018, transfers to other state funds, consisted of:

Year ended June 30, 2018	
Mississippi Community College Board	\$ 19,225,318
State Workforce Investment Board	1,281,841
Mississippi Works Fund	5,122,756
	\$ 25,629,915

#### NOTE 4: SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, management of MDES has evaluated subsequent events through February 11, 2019, which is the date the financial statements were available to be issued.



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

Executive Director Mark Henry Mississippi Department of Employment Security 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 General Fund - Fund 3367800000 of the Mississippi Department of Employment Security (MDES), which comprise the balance sheet as of June 30, 2018, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements and have issued our report thereon dated February 11, 2019.

### **Internal Control Over Financial Reporting**

Management of MDES 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 MDES' 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 MDES' internal control. Accordingly, we do not express an opinion on the effectiveness of MDES' 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 MDES' 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 MDES' 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 results of that testing, and not to provide an opinion on the effectiveness of MDES' internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Can, Rigge & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi February 11, 2019 Unemployment Insurance CFDA # 17.225



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# INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – PROGRAM AUDITED

Executive Director Mark Henry Mississippi Department of Employment Security Jackson, Mississippi

### **Report on Schedule of Expenditures of Federal Awards**

We have audited the accompanying schedule of expenditures of federal awards selected for audit (the Schedule) for the Unemployment Insurance – CFDA # 17.225 (the Program), of the Mississippi Department of Employment Security ("MDES") for the year ended June 30, 2018.

### Management's Responsibility for the Schedule of Expenditures of Federal Awards

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the 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 MDES' 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 MDES' internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

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

### Opinion

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the Program Audited for the year ended June 30, 2018, 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 11, 2019, on our consideration of MDES' 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 MDES' internal control over financial reporting and compliance.

Can Rigge & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi February 11, 2019

# Mississippi Department of Employment Security (A Department of the State of Mississippi) Schedule of Expenditures of Federal Awards Selected for Audit Year Ended June 30, 2018

Year ended June 30, 2018 Federal Amount Federal Grantor/Pass-through Federal **CFDA** Passed to Grantor/Program Title Number Subrecipient Expenditures U.S. Department of Labor **Unemployment Insurance** 17.225 N/A \$ 115,954,462 **Total Expenditures of Federal Awards Selected for Audit** \$ 115,954,462

See independent auditors' report and accompanying notes to schedule of federal grant expenditures.

Mississippi Department of Employment Security (A Department of the State of Mississippi) Notes to Schedule of Expenditures of Federal Awards Selected for Audit

#### NOTE 1: NOTES TO SCHEDULE

- 1. The accompanying schedule of expenditures of federal awards selected for audit (the Schedule) includes the federal award activity of the Mississippi Department of Employment Security (MDES) under programs of the Unemployment Insurance for the year ended June 30, 2018. 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 MDES, it is not intended to and does not present the financial position, changes in net position, or cash flows of MDES 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. MDES has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
- 4. The Unemployment Insurance program is administered through a unique federal state partnership that was founded upon federal law, but implemented through state law. For the purposes of presenting the expenditures of this program in the accompanying schedules of expenditures of federal awards, both state and federal funds have been considered federal awards expended. The breakdown of the state and federal portions of the total program expenditures is as follows:

State Portion	\$ 73,895,595
Federal Portion	42,058,867
	\$ 115,954,462

# Mississippi Department of Employment Security (A Department of the State of Mississippi) Schedule of Findings and Questioned Costs

# Section I - Summary of Auditors' Results

Financial Statements	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Noncompliance material to financial statements noted?	No
Program Specific Federal Awards Internal control over federal programs:	
Material weakness identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None noted
Type of auditor's report issued on compliance for the federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with §200.516 Audit Findings paragraph (a)?	No
Identification of program audited:CFDA NumberName of Federal Program or Cluster Number17.225Unemployment Insurance	
Section II – Financial Statement Findings	
No items were reported.	
Section III – Federal Award Findings and Questioned Costs	
No items were reported.	
Prior Findings and Questioned Costs	
No items were reported.	



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# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE PROGRAM SPECIFIC AUDIT OPTION UNDER THE UNIFORM GUIDANCE

Executive Director Mark Henry Mississippi Department of Employment Security Jackson, Mississippi

### Report on Compliance for the U.S. Department of Labor – Unemployment Insurance

We have audited the compliance of the Mississippi Department of Employment Security (MDES) 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 Labor – Unemployment Insurance Program (the "Program Audited") for the year ended June 30, 2018.

#### Management's Responsibility

Management of MDES is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to the Program Audited.

#### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Program 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 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 Program Audited occurred. An audit includes examining, on a test basis, evidence about MDES' 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 Program Audited. Our audit does not provide a legal determination on MDES' compliance with those requirements.

#### **Opinions on U.S. Department of Labor – Unemployment Insurance**

In our opinion, MDES 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 Labor – Unemployment Insurance Program for the year ended June 30, 2018.

#### **Report on Internal Control Over Compliance**

The management of MDES 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 MDES' internal control over compliance with the requirements that could have a direct and material effect on the Program Audited to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance, 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 MDES' 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 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 internal control over compliance is a deficiency or a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance of deficiencies, in internal control over compliance is a deficiency or 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Can, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi February 11, 2019

# Mississippi Department of Employment Security

Financial Statements of Proprietary Funds Selected for Audit

Year Ended June 30, 2018



# Mississippi Department of Employment Security (A Department of the State of Mississippi) Table of Contents June 30, 2018

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#### INDEPENDENT AUDITORS' REPORT

Executive Director Mark Henry Mississippi Department of Employment Security Jackson, Mississippi

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Proprietary Fund - Fund 8819100000 – Unemployment Compensation and also of Proprietary Fund 8819400000 – Federal Unemployment Compensation of the Mississippi Department of Employment Security ("MDES"), which comprise the statements of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the basic financial statements, as listed in the table of contents. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

#### Management's Responsibility for the Financial Statements

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

#### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 MDES' 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 MDES' internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Proprietary Fund - Fund 8819100000 – Unemployment Compensation and also of Proprietary Fund 8819400000 – Federal Unemployment Compensation of MDES as of June 30, 2018, and the changes in their financial position and cash flows 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 financial position and results of operations of Proprietary Fund - Fund 8819100000 – Unemployment Compensation and Fund 8819400000 – Federal Unemployment Compensation and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2018, or the changes in its financial position or, where applicable, 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 Discussion and Analysis and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 11, 2019, on our consideration of MDES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an

opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control over financial reporting and compliance.

Can Rigge & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi February 11, 2019

# Mississippi Department of Employment Security (A Department of the State of Mississippi) Statements of Net Position of Proprietary Funds Selected for Audit

		Proprietary Funds				
June 30, 2018 Assets	Fui	nd 8819100000	Fund 8819400000			
Cash and cash equivalents	\$	692,446,330	\$	-		
Receivables, net						
Accounts receivable		9,777,878		-		
Assessments		21,604,449		-		
Due from other governments		792,558		-		
Due from other state funds		295,174		184,493		
Due from universities		145,581		-		
Total assets	\$	725,061,970	\$	184,493		
Liabilities						
Accounts payable and accrued liabilities	\$	71,378	\$	1,275		
Due to other governments		5,683,282	-			
Due to other state funds		2,016,726		854		
Unearned revenue				152,581		
Claims and benefits payable		6,376,075		29,783		
Total liabilities		14,147,461		184,493		
Net Position						
Restricted for unemployment compensation						
benefits		710,914,509				
Total liabilities and net position	\$	725,061,970	\$	184,493		

# Mississippi Department of Employment Security (A Department of the State of Mississippi) Statements of Revenues, Expenses and Changes in Net Position of Proprietary Funds Selected for Audit

		Proprietary Funds				
Year ended June 30, 2018			d 8819100000	Fund 8819400000		
Operating Revenues						
		~	02 071 245	ć		
Assessments	:	\$	82,871,345	Ş		
Federal agencies		_	101	-	983,363	
Total operating revenues			82,871,446		983,363	
Operating Expenses						
Claims and benefits			72,912,131		983,363	
Operating Income			9,959,315			
Nonoperating Revenues						
Investment income			14,804,574		2	
Net Increase in Net Position			24,763,889			
Net Position - beginning of year			686,150,620			
Net Position - end of year		\$	710,914,509	\$	-	

See notes to financial statements of proprietary funds selected for audit.

# Mississippi Department of Employment Security (A Department of the State of Mississippi) Statements of Cash Flows of Proprietary Funds Selected for Audit

	Proprietary Funds				
Year ended June 30, 2018		d 8819100000	Fund 881940000		
Operating Activities					
Operating Activities	ć		ć	002.262	
Cash receipts from federal agencies	\$	-	\$	983,363	
Cash receipts from assessments		85,710,833		· · · · · · · · · · · · · · · · · · ·	
Cash paid for claims and benefits		(73,591,517)		(983,363)	
Net cash provided by operating activities		12,119,316			
Investing Activities					
Investment income		14,804,574		-	
Net cash provided by investing activities		14,804,574			
Met cash provided by investing activities		14,604,574		-	
Increase in Cash and Cash Equivalents		26,923,890			
Cash and Cash Equivalents, beginning of year		665,522,440		2	
Cash and Cash Equivalents, end of year	\$	692,446,330	\$		
Reconciliation of Operating Income to Net Cash Provide	d by				
Operating Activities			<u> </u>		
Operating income	\$	9,959,315	Ş		
Changes in assets and liabilities					
Receivables		2,403,104		15,463	
Claims, benefits and accounts payable		(243,103)		7,612	
Unearned revenue	_			(23,075)	
Net cash provided by operating activities	\$	12,119,316	\$	-	

See notes to financial statements of proprietary funds selected for audit.

### NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

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

### Financial Reporting Entity

MDES is reported as a state agency in the State of Mississippi's Comprehensive Annual Financial Report. The selected funds presented in these financial statements are part of the larger entity that in whole comprises the financial reporting entity of MDES. MDES is a federally-funded state agency and authority to expend funds is granted by the state legislature. The programs of MDES, under the direction of the governor of Mississippi, report to the federal government.

<u>MDES' Unemployment Compensation Fund</u> - Fund 8819100000 accounts for the collection of unemployment insurance taxes from employers and the payment of unemployment benefits to eligible claimants. Funds are also provided by the federal government and investment income.

<u>MDES' Federal Unemployment Compensation Fund</u> - Fund 8819400000 provides benefits for eligible unemployed former civilian Federal employees. The program is administered by the state of Mississippi as an agent of the Federal government. This program is operated under the same terms and conditions that apply to regular State Unemployment Insurance.

#### Measurement Focus and Basis of Accounting

The financial statements presented are those required for a business-type activity presentation and are prepared using the economic measurement focus and the accrual basis of accounting. MDES' Fund 8819100000 and Fund 8819400000 are proprietary funds and will be presented as such in these financial statements and in the financial statements of the State of Mississippi Comprehensive Annual Financial Report (CAFR).

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses from these proprietary funds include benefits and aid payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# Cash and Cash Equivalents

MDES considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018, cash and cash equivalents consisted of demand deposits and U.S. Treasury deposits.

### Receivables

MDES records accounts receivable related to the unemployment insurance program at net realizable amounts from employers, program participants and other governmental entities. MDES provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As of June 30, 2018, the amount of the allowance for Fund 8819100000 was approximately \$65,000,000. As an agency of the State of Mississippi, the MDES is precluded by statute from discharging amounts owed. Accordingly, gross accounts receivables and the allowance for doubtful accounts include amounts considered to be 100% uncollectible and fully reserved in a prior year.

# **Risk Management**

MDES 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. MDES has various insurance policies to cover its potential liability risk areas. 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.

# Interfund Activity

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

# NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Claims and Benefits Payable**

A liability for an insurance claim is established if information indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. Claims and benefits payable represent amounts incurred prior to the reporting date.

#### Net Position

The difference between assets and liabilities is net position. Net positions that are restricted for specific purposes by external resource providers or are legally restricted to a specific use or are not available for appropriation or expenditures are reported as restricted. Restrictions may only be changed or lifted with the consent of resource providers. The net position of Fund 8819100000 is restricted for unemployment compensation benefits. The net position of Fund 8819400000 is restricted for federal unemployment compensation benefits.

### 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 expenses during the reporting period. Actual results could differ from those estimates.

# Federal Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when all eligibility requirements are met, including any time requirements. Federal reimbursement type grants are recorded as revenues when the related expenses are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

#### **Unearned Revenues**

Unearned revenues are recognized when revenues are received prior to meeting eligibility requirements.

#### **NOTE 2: DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. MDES' deposit policy for custodial credit risk requires compliance with the provisions of state law.

Deposits in the "benefit payment account" are governed by Section 71-5-455, Miss. Code Ann. (1972), which provides that MDES shall be 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).

Deposits are included in the financial statements as follows:

	Fui	Fund 8819100000		Fund 881940000	
Carrying value					
Trust fund - U.S. Treasury deposits	\$	676,095,703	\$	-	
Demand deposits		16,350,627		-	
	\$	692,446,330	\$		

U.S. Treasury deposits pay interest based on current rates for short-term government securities. At June 30, 2018, none of the fund's deposits were exposed to custodial credit risk.

#### NOTE 3: TRANSACTIONS WITH OTHER STATE FUNDS

At June 30, 2018, receivables and payables from other state funds, including other MDES funds, consisted of:

	Fund 8819100000					Fund 8819400000			
June 30, 2018		Receivables		Payables	Re	Receivables		Payables	
Governmental funds within MDES	\$	-	\$	1,795,295	\$	-	\$	-	
MS Department of Human Service			\$	36,938			\$	854	
MDES proprietary funds				184,493		184,493			
MS Department of Finance and									
Administration		295,174	_			•		*	
	\$	295,174	Ş	2,016,726	\$	184,493	\$	854	

During the year ended June 30, 2018, there were no transfers with other state funds.

#### **NOTE 4: CONTINGENICES**

#### Grants

MDES is currently participating in numerous grants from various departments and agencies of the federal government. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed. The amount, if any, of expenditures that may be disallowed by the grantors cannot be determined at this time, although MDES expects such amounts, if any, to be immaterial to the net position and results of operations of the funds selected for audit.



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

Executive Director Mark Henry Mississippi Department of Employment Security 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 Unemployment Compensation Fund - Fund 8819100000 and also of Fund 8819400000 – Federal Unemployment Compensation Fund of the Mississippi Department of Employment Security (MDES), which comprise the statements of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated February 11, 2019.

#### **Internal Control Over Financial Reporting**

Management of MDES 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 MDES' 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 MDES' internal control. Accordingly, we do not express an opinion on the effectiveness of MDES' 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 MDES' 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 such that such that there is a reasonable possibility that a material misstatement of MDES' 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 MDES' 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 results of that testing, and not to provide an opinion on the effectiveness of MDOES' internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Can Rigge & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi February 11, 2019